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ACCOUNTS AND ACCOUNTING PRACTICE

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PREFACE

THE author of this book has accepted the distinction made by recent writers between bookkeeping and accounting and has adopted the latter title, because the discussions and exercises that follow have to do chiefly with the construction, organization, and interpretation of accounts.

One writer says that "bookkeeping is carpentry; accounting, architecture." If this distinction holds, bookkeeping becomes merely an application of arithmetic and penmanship; its aim as a subject of study, the acquisition of manual expertness in marshaling statistics. The study of any subject by the application of prescribed formula must dull the observation and deaden initiative, thus making distinct and logical sequences decline into a routine obedience to rule-of-thumb dogmas. While the student of bookkeeping, therefore, as bookkeeping has been defined, may carry away with him a quantity of not altogether useless preconceptions, the critical faculty, which alone can aid him in analyzing the entirely practical and unceremonious phenomena of business, is not brought into prominence.

The clerical aspects of all written work are, of course, important; but a larger aim of this subject should be to teach the principles of business organization and procedure as they are prescribed in the experiences of business men. Business organization results from the observation and interpretation of business facts and events. When a business man appraises a fact of his business, he at the same time appraises the services of the one responsible for that fact. Accounts record values, but values merely reflect the judgments of men. Each account, therefore, has its prototype in some activity of the business. The accounting organization thus symbolizes the business organization; each involves all the principles of the other.

It is not contended that a study of the principles of business organization will make a full-fledged business man, any more than a study of legal "cases" will make a full-fledged lawyer. But the aspirant for success in the commercial world who is fortified with a knowledge of principles and precedents is much better able to interpret his environment than one who enters the field with no such equipment.

In the study of accounts here presented, both the account method and the transaction method have been employed. An account has its source and function in the events of which it is a record; but all events have a relative significance, so an account must be interpreted in its relation to other accounts. The account should, accordingly, be viewed from different angles.

The law of debit and credit is presented as expressing and governing the relation between a thing owned and its owner. And it is so presented because the author is aware of no other *law* by which to explain the equilibrium of a double entry.

An attempt has been made from the beginning to adhere to established principles of accounting. Accounting ramifications cannot, of course, be fully illustrated in elementary exercises. Students, however, may be very thoroughly grounded in the comparatively few principles that underlie all accounting expedients, and may be taught to clearly understand some adaptation of those principles to practical considerations. The rest must be left to the school of experience.

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ACCOUNTS AND ACCOUNTING PRACTICE

INTRODUCTION

Development of Subject

The study of accounts is begun by persons of widely varying ages and capacities, and teachers hold different opinions of its value and purpose. This book is intended, accordingly, to give the widest possible latitude in developing the subject treated. Those who find that the subject matter of the opening pages is beyond the grasp of beginning students are asked to turn to page 21, *The Construction of Accounts*, and proceed from that point. Those who prefer to begin the study by writing and posting entries may turn at once to page 41 where very simple material in narrative form, and detailed instructions, are given for that purpose.

Business Papers

At just what point business papers should be introduced is also debatable. Interpretation of business forms is, of course, essential to a working knowledge of the subject. Standardized business documents, however, have been developed through centuries of legal and business procedure, and they are too technical to be used at the beginning as objects of study. It is enough for the beginning student to translate language within his own comprehension into accounting terms and concepts. The double translation would have to proceed from the unknown through the known to the unknown. In the beginning exercises of this book, therefore, the facts involved are fully and simply stated.

Red Ink

The use of red ink, for the purpose of closing and ruling accounts, is neither illustrated nor required in this book, in recognition of the now common and growing practice of bookkeepers and accountants, especially those connected with large concerns, to use black ink for all account-keeping purposes. The reason for this practice is obvious: it saves time by reducing the number of tools handled and the kinds of material used, and is therefore a practical application of the principles of efficiency. Teachers who prefer the other method may, however, readily adapt the book to meet their views by instructing the students to use red ink for making original cross entries and for all rulings.

Methods

The author has combined the best features of both the account method and the transaction method of development. Our problem involves the study of an accounting structure and its constituent parts. We may first exhibit that structure as a working organism and trace the source and function of its various parts, or we may begin by interpreting and assembling the parts that form the structure. Both points of observation are necessary to a complete understanding of the subject.

Basic Principles

Whether a study of fundamental laws should precede, accompany, or follow the mechanical routine of bookkeeping procedure may be open to discussion; but there can hardly be two opinions as to the value of the basic principles underlying that procedure. The responsible head of a business is concerned with the higher sides of its activities, as distinct from the mechanical routine work of his subordinates; but managers and proprietors are recruited from the ranks of subordinates whose spheres of observation extend beyond the particular service to which they are assigned. The bookkeeper who sees in his work nothing more than writing entries, posting, and taking a trial balance may scarcely hope to rise to a higher position, and his success as a mere bookkeeper will be very small. A preparation for business that does not reach beyond the requirements of an office assistant's position is, to say the least, superficial and inadequate. Emphasis should, therefore, be put, not alone upon the mechanical details of accounting processes, but upon the capacity to bring trained intellects to the solution of practical problems.

THE ECONOMIC BASIS OF ACCOUNTING

Assets and Capital

The fact that persons have the right to own and transfer external things and do appropriate such things to their personal use and service, forms the groundwork of accounting practice. Almost every one owns something, and nearly everything in the world about us is owned by some one. Things owned serve the owner's purpose as a means of satisfying some of his wants. That which satisfies a want or renders a service is said to have " value," and valuable things may be exchanged for other things. Persons engaged in exchanging things of value are said to be " in business."

Persons in business become the owners of many different things. These things are often not in possession of the owner; they are frequently moved from place to place, and they often become owned and unowned by many different persons in a short space of time. Moreover, one person's ownership of a thing is often not complete; that is, different persons have a money interest in the same thing or group of things at the same time. These considerations make it necessary to keep some kind of a business record to show (1) what things are owned and (2) who are the owners. Things owned are called " assets "; the owner's right to such things, " capital."

Profit

It should be apparent from the foregoing that ownership presents two related concepts, or notions; that of the *thing owned* and that of the owner's *property right* in the thing. When things owned increase in value, the *increase* becomes owned, and the owner's worth increases accordingly. An increase of an owner's worth is called " profit." Capital and profit are, accordingly, the same *kind* of thing; they are the worth of an owner's right to something. If an owner's worth has increased, former capital plus profit equal present capital.

Expenses and Losses

Since only valuable things are owned, a thing becomes unowned when it loses its value, because the owner's right to it loses its worth. All things in which a business man deals, or with which his business is carried on, are expected to yield an adequate return, either in money or some other species of value. Some things are sold, others are used or consumed in running the business. The value of any of these things may

become wholly or partly lost from the decay, destruction, or depreciation of the thing owned, or as the result of a falling market. Another reason, therefore, why records are kept is to show how much things cost and how much they yield or produce; and to show the cost of things that, in one way and another, lose their value. The things that are consumed by use, such as fuel, light, postage, stationery, etc., are called "expenses." Things that lose their value to the owner without giving anything in return are called "losses."

Scope of the Record

If we are to record the rights of persons in and to things owned as well as to account for the objects to which such ownership relates, a complete accounting record should show (1) who owns, or owns an interest in, the things employed in a particular business undertaking; (2) the events by which property rights involved are acquired and disposed of; and (3) to what extent the value of the things underlying those property rights becomes increased or diminished. A complete record, accordingly, comprehends three things: (1) a statement of ownership at the beginning of a business period, which is called an "opening entry"; (2) a record of events during a period of time, called the "journal"; and (3) a statement of ownership at the close of such period, called the "balance sheet."

A BUSINESS ANALYZED

1. We shall now analyze the facts and events of a small business undertaking to show (1) the relation that exists between things owned and their owners, and (2) how that relationship is affected by increases and decreases in value of the things owned.

Illustrative Transactions

Nov. 1, 19— (current year), John Lord is the owner of $400 in cash. Nov. 3 he buys of Joseph McCall 200 bbl. apples @ $2.75, paying cash $300 and giving his oral promise to pay the balance of $250 in 20 days. At the same time he hires the use of a storeroom until Dec. 1, and pays for the same in cash $35. During the month of November he makes the following sales: Nov. 7, H. A. Miller for cash, 10 bbl. @ $3.75; Nov. 12, Carl Hutchins on terms of ten days' credit, 25 bbl. @ $3.75; Nov. 20, D. D. Warne for cash, 155 bbl. @ $3.50; Nov. 27, E. A. Hough for cash, 5 bbl. @ $2.50. Nov. 22 John Lord receives of Carl Hutchins $93.75 in full settlement of Hutchins' debt. Nov. 23 Joseph McCall is paid in full for the purchase of Nov. 3. Nov. 30 John Lord pays other incidental expenses incurred during the month $58.50.

A statement of ownership at the beginning of this business undertaking would appear as follows:

(*a*) NOVEMBER 1, 19—

	Cash	400	
	John Lord, Capital Investment		400

This is a record of the fact that John Lord is the owner, Nov. 1, 19—, of $400. The record of a fact or of an event is called an "entry"; and since the fact of ownership involves two things — the thing owned and the owner's property right — the entry has two parts, or items. And since one or more persons may own many different things, such as money, goods, land, buildings, etc., it is necessary to have a class name for the things owned. This name, we have already learned, is assets, or debtors. For the reason that the property rights of many individuals may attach to one thing or group of things, it is necessary to have a class name for owners, and they are called "creditors." The rights of the legal owner — the one in whom the title vests — and the rights of those to whom such owner is in debt, are distinguished by the terms "capital" and "liabilities." It

is hardly necessary to say that the pecuniary rights of the owner or owners equal the value of the things owned.

2. The period of time during which transactions are recorded and at the close of which another ownership statement is prepared, varies in business, but this period is usually one year. Each transaction, however, produces a change in the things owned. Money is exchanged for goods and other species of value, and goods are exchanged for money. Buying goods for cash increases the supply of goods and correspondingly decreases the supply of cash. Selling goods for cash has the opposite effect. Each transaction, therefore, transfers value from one part or department of the business to another. If the value of the things owned increases, either the proprietor's interest or that of some one outside the business increases accordingly. If for any reason the value of the things owned decreases, the proprietor's interest or that of some one outside the business decreases accordingly.

For the purpose of illustrating the *effect* of the transactions in the business of John Lord upon the things owned and upon the owners' property rights, the following statements, beginning with the statement of Lord's ownership Nov. 1, show the conditions immediately following each transaction. The accounting procedure by which this outcome is accomplished will be taken up later.

(*b*) NOVEMBER 1, 19—

Debtor		*Creditor*	
Cash	400	John Lord	400

This is merely a repetition of illustration *a* in a different form.

Nov. 3. Buy of Joseph McCall 200 bbl. apples @ $2.75. Lord pays cash $300 and gives his oral promise to pay the balance of $250 in 20 days.

Apples valued at $550 have become owned; cash amounting to $300 has been disposed of, or become unowned, and Joseph McCall has become a part owner of Lord's assets to the amount of $250. An ownership statement following this transaction would stand as follows:

(*c*) NOVEMBER 3

Debtors		*Creditors*	
Cash	100	Joseph McCall	250
Apples	550	John Lord	
		Investment	400
	650		650

The supply of cash has been decreased $300, the assets have been increased (by the supply of apples) $550, or a net increase of $250, which is the amount of McCall's interest in the things owned.

Nov. 3. Hire the use of a storeroom until Dec. 1 and pay the rental in cash $35.

That which has here become owned is called " rent." Cash is reduced $35, and our exhibit now stands

(*d*) NOVEMBER 3

Debtors			*Creditors*		
Cash	65		Joseph McCall	250	
Apples	550		John Lord		
Rent	35		Investment	400	
	650			650	

If you have difficulty in understanding how we can own rent, consider that ownership never means anything more than the right to occupy or use and transfer the thing owned. If you had a knife and were not allowed to use, sell, or exchange it for something else, you would have none of the rights of an owner; ownership of the knife would mean nothing to you. If you hired the use of a knife one month, you would thereby acquire a part interest in the knife. For accounting purposes, rent is a part or temporary ownership of the thing rented.

Nov. 7. Sell H. A. Miller for cash 10 bbl. apples @ $3.75. Our ownership statement now stands

(*e*) NOVEMBER 7

Debtors			*Creditors*		
Cash	102	50	Joseph McCall	250	
Apples	522	50	John Lord		
Rent	35		Investment	400	
			Profit	10	
	660			660	

Compare illustrations *d* and *e*. The apple supply has decreased $27.50 (10 bbl. @ $2.75). The cash supply has increased $37.50, which is a net increase in the value of things owned of $10. John Lord is the owner of this increase which, it should be noted, is separated from the original ownership, or investment, and is called " profit."

Nov. 12. Sell Carl Hutchins 25 bbl. apples @ $3.75, on terms of ten days' credit. Receive in exchange for the apples Hutchins' promise to pay $93.75 in 10 days. Our exhibit now stands

(*f*) NOVEMBER 12

Debtors			*Creditors*		
Cash	102	50	Joseph McCall	250	
Apples	453	75	John Lord		
Rent	35		Investment	400	
Carl Hutchins	93	75	Profit	35	
	685			685	

The supply of apples has been decreased and Carl Hutchins has received the value. Hutchins is a debtor here in practically the same sense that cash, apples, and rent are debtors. This debt of $93.75 is a species of property — cash in 10 days. Pending the receipt of that cash, we employ Hutchins' name as a debtor. If he sends us a check in payment, we shall call the check "cash"; but we shall still possess nothing more than a claim upon another's assets. The difference between "Apples" and "Carl Hutchins" as debtors is that one is a possession, the other an expectation; but to the business man *all values are expectations* — expectations of pecuniary service. The question is: What will these things yield in money? And this is the only question in the mind of the business man with reference to all things owned.

Compare illustrations *e* and *f*. What is the net increase in the value of the things owned? Who owns this increase? What is an increase of the proprietor's ownership called? What is the total value of things owned? (The fact that rent has decreased in value, owing to the expiration of a part of the time for which the storeroom was rented, may be disregarded at present.) What name is given to things owned? What is the amount of McCall's interest in the things owned? How much is Lord's interest? Explain the difference between McCall's interest and that of Lord.

Nov. 20. Sell D. D. Warne for cash 155 bbl. apples @ $3.50. The business involved in relation to those who have claims upon it now stands

(*g*) NOVEMBER 20

Debtors			*Creditors*		
Cash	645		Joseph McCall	250	
Apples	27	50	John Lord		
Rent	35		Investment	400	
Carl Hutchins	93	75	Profit	151	25
	801	25		801	25

Compare the value of things owned Nov. 12 (illustration *f*) with the value of the things owned Nov. 20 (illustration *g*). What became owned

in this transaction? What became unowned? What has increased? Decreased? What is the net increase in the value of things owned? Who owns the things listed as debtors? What was Lord's interest Nov. 12? What is his interest now? How much has Lord's interest increased? What was the cost price of the apples? The selling price? What profit resulted from the sale of 155 bbl. apples? Define debtor and creditor.

Nov. 22. Receive from Carl Hutchins $93.75, in accordance with the terms of the sale of Nov. 12. Hutchins' name is now dropped from the list of debtors. Cash receives the value given by Hutchins, and we have

(*h*) NOVEMBER 22

Debtors			*Creditors*		
Cash	738	75	Joseph McCall	250	
Apples	27	50	John Lord		
Rent	35		Investment	400	
			Profit	151	25
	801	25		801	25

Did this transaction of Nov. 22 increase the value of things owned? What class of transactions does produce such an increase? Under what circumstances would a sale decrease the value of things owned? What is the source of profit?

Nov. 23. Pay our obligation to Joseph McCall, $250, in accordance with the terms of the transaction of Nov. 3. Cash is decreased by the amount of the payment. McCall's name is dropped from the list of creditors, and we have

(*i*) NOVEMBER 23

Debtors			*Creditors*		
Cash	488	75	John Lord		
Apples	27	50	Investment	400	
Rent	35		Profit	151	25
	551	25		551	25

Joseph McCall has taken possession of his interest in the things owned, thereby reducing our value token $250, with a corresponding reduction in McCall's pecuniary interest. It is thus seen that personal items, other than those of the proprietor, appear in the record only temporarily. They call for the receipt or payment of money, and operate to increase or reduce the cash item when payment is received or made.

The sales of Nov. 7, 12, and 20 resulted in an increase in the value of things owned, with a corresponding increase in the proprietor's worth.

We will now show how the value of things owned is *decreased* and how the owner's worth is decreased accordingly.

Nov. 27. Sell E. A. Hough for cash 5 bbl. apples @ $2.50. Our cash fund becomes increased $12.50, our apple supply decreased $13.75 (5 bbl. @ $2.75), or a net decrease, both of things owned and of ownership, of $1.25, thus:

(*j*) NOVEMBER 27

Debtors			*Creditors*		
Cash	501	25	John Lord		
Apples	13	75	Investment	400	
Rent	35		Profit	150	
	550			550	

Compare illustrations *i* and *j*. By selling apples that cost $13.75 for $12.50, Lord has suffered a loss of $1.25, which reduces profit by that amount.

Nov. 30. Pay $58.50 for various things that have been purchased during the month — the services of workmen and teams, postage, telephone messages, and the like — things that have no tangible existence, but nevertheless represent value received and, with other value received, are included among the debtor items, thus:

(*k*) NOVEMBER 30

Debtors			*Creditors*		
Cash	442	75	John Lord		
Apples	13	75	Investment	400	
Rent	35		Profit	150	
Expense	58	50			
	550			550	

This transaction effected a transfer of value from Cash to Expense. An article of wealth has value only because of its uses or services; and when we buy service of any kind, we are buying a part interest in the wealth which renders that service. The purpose of accountkeeping is to determine, in money service, the outcome of things owned. Accordingly, there is no essential difference between the services we call "Expense" and the services we call "Apples" or "Cash."

The temporary use of land and buildings, called "rent"; the services of workmen, called "wages," "labor," or "salaries"; mail, telephone, and telegraph service, called "communications"; heat, light, and water service are things owned, have value, and involve property rights.

3. We have now reached the third step in the process of recording business facts and events; namely, the statement of ownership at the end of the period. In the preceding illustrations we have shown the effect of business transactions, ignoring for the time being all other considerations. Not only do transactions produce changes in the things owned, but changes result from the use, decay, and depreciation of such things. All wealth is perishable, and all rights to the services of wealth expire in time and lose their value. Many of the things with which a business is carried on, such, for illustration, as fuel and stationery, are consumed in one use. Other things, such as tools, office furniture, and machinery, are worn out by repeated use. Still other things, such as telephone service, labor, and the like, exist not as possessions, but as *flows* of value. If we would know to what extent all these changes have affected the value of things owned, it is necessary to make a physical valuation of what remains at the end of the period. This physical valuation is called an "inventory."

Let us assume that John Lord's inventory Nov. 30 disclosed only $442.75 in cash. The five barrels of apples unaccounted for have been culled out from time to time. Some have rotted, others were small and not salable. One month has elapsed, and his right to use the storeroom has expired. Nothing of value is discoverable to represent the expense item of $58.50. "Rent," "Apples," and "Expense" at this time represent value absorbed in running the business. Since they have lost their value, the owner's right to them has lost its worth. They must accordingly be dropped from the list of debtors and the profit item reduced by the same amount, $107.25. And we have finally

(*l*) NOVEMBER 30

Debtor			*Creditors*		
Cash	442	75	John Lord		
			Investment	400	
			Profit (net)	42	75
	442	75		442	75

Summary

The business man keeps books to show (1) who owns, or owns an interest in, the things of his business, and (2) how and to what extent the things owned increase or decrease in value. We have learned that values received are placed on the left side and are called "debtors"; that such values received are (1) transferred to some one outside the business; (2) consumed or absorbed in the process of marketing the stock in trade; or (3) remain intact as assets, or things owned, at the end of the period. We

have also learned that those who own, or own an interest in, the things of the business are entered on the right side and are called "creditors."

Definitions

Value is the potential pecuniary service of a thing.

Assets are things owned. The bookkeeper includes as assets all things upon which the owner may suffer a loss.

Profit is value increase — increment of ownership; that which a thing yields in excess of its cost.

Losses are consumed assets — the cost of a thing in excess of its yield, or production.

A liability is a debt owed by us; a claim upon, or a part interest in, our assets.

Capital is the proprietor's residuary interest in the assets of a business; the difference between assets and liabilities. This definition of capital is made to include investment and profit. "Capital" is employed in accountkeeping, however, in the sense of an investment, as distinguished from the income upon the investment.

A creditor is one who owns a right to the uses or services of a valuable thing.

A debtor is the thing to which a creditor's right attaches.

Since things owned are expected to render a service commensurate with their cost, they (or their custodians) are charged with their cost, or services expected, and credited with the services they render. That which costs or receives value is, therefore, a debtor. That which earns or gives value is a creditor.

An account is a record by which a thing or person is charged with the value it costs or receives, and credited with the value it yields or gives.

Problems

1. If the capital of a business is $10000 and its assets are $13500, what are its liabilities?

2. Jones & Belcher began business Oct. 1, 19—, with an investment of $17500. Oct. 1, the following year, their assets are $26400 and their liabilities $5350. What have been their profits during the year?

3. Nelson & Noble have assets valued at $28760. Their liabilities are $6895. Their gross profit since the books were last closed is $9305, and their expenses $4256. What was their capital at the last closing?

4. Following are the assets and liabilities of the business of Perkins & Morgan, Dec. 31, 19—:

ASSETS		LIABILITIES	
Cash	$560.	Accounts Payable	$1375.
Accounts Receivable	2450.	Mortgage Payable	4000.
Stock of Merchandise	12000.		
Horses & Wagons	1250.		
Office Furniture	550.		

Jan. 1, same year, their capital was $13500. Show whether the business was conducted at a profit or at a loss.

5. If the assets of a business amount to $23450 and its liabilities are $7656, what is its capital?

6. The capital, profit, and liabilities of a business are $32650. What are its assets?

7. The capital of a business Jan. 1, 19—, is $34500. Its losses during the following year are $560. Its liabilities Dec. 31, same year, are $8397. What are its assets Dec. 31?

8. The assets of a business July 1, 19—, not including stock of goods, are $8975. Its capital Jan. 1, same year, was $21000. The records show a net profit during the first six months of the year of $3000. If there are no liabilities July 1, what should be the value of the stock of goods?

Questions

1. Mention ten different things that are owned. Mention something you own. 2. What is the meaning of ownership? 3. What does the business man expect to get out of things owned by him? 4. What function has money in our system of exchange? 5. Define credit. 6. What is a creditor? What right has a creditor? 7. What right has an owner? 8. What class name does the bookkeeper give to things owned? 9. Do things owned sometimes lose their value? How? 10. What are things owned called when they lose their value? 11. Do worthless things have owners? 12. Define debtor. 13. Show the relation between debtor and creditor. 14. Define assets, liabilities, capital. 15. What should an accounting record show?

16. Albert Shire is in the business of selling newspapers. Nov. 1, he is the owner of $7.50 and has no debts. Nov. 30, he is the owner of $18.20 and has no debts. What has happened in Shire's business experience? 17. Define profit. 18. Does "profit" indicate the thing owned or the ownership of such thing? 19. In the case of Albert Shire's business (question 16), did the $10.70 increase Nov. 30 exist as a thing owned? Under what title was the increase shown? 20. What is value? Does value exist as a physical thing or an attribute of something? Explain. 21. How are

valuable things, such, for illustration, as apples and oranges, originally produced? 22. Does the producer put his service, or labor, into the thing produced? Can you think of any valuable things that are not the product of labor? Are such things owned? 23. What is meant by the statement: "Wealth is a depository of value"? 24. Does a child receive strength as it grows? Does a calf receive value as it increases in size and age? Does every article of wealth receive value in the process of its production? Does all wealth at some time yield or give back in some form of service the value it contains? 25. If a thing yields to its owner less than cost, what is the difference called? 26. How are things of value acquired in business? 27. If we exchange $100 in money for the same value in goods, what has become owned by us? What has become unowned? What received the value? Gave the value? Which is a debtor? Which a creditor? Why?

CONSTRUCTION OF ACCOUNTS

We have thus far studied the business as a whole in relation to its owners. We have now to study the different parts of the business in relation to one another. Beginning, as before, with the fundamental fact of ownership, involving the thing owned and its owner, we shall make such a complete record of business transactions as will show the outcome in profit or loss.

Things owned are debtors, and since things that become owned cost value, *that which costs value is a debtor.* Owners are creditors, and since owners become such by giving value, *that which gives value is a creditor.* Hence the rule:

That which costs, or receives, value is a debtor; that which gives, or produces, value is a creditor.

Application of this rule will be made easier if we first classify all transactions with reference to time of performance. When we sell goods for cash, the transaction is said to be complete, or *executed.* When we sell goods on credit, the transaction is said to be incomplete, or *executory.* In entering executed transactions, we may disregard the other party involved, debiting that which becomes owned, or costs value, and crediting that which becomes unowned, or produces value. In executory transactions, however, we must debit that which becomes owned and credit the one who gives the value; or credit that which becomes unowned and debit the one receiving the value. But it should be noted that the value received or parted with in executory transactions is sooner or later returned in settlement of the debt incurred; in other words, executory transactions ultimately become executed. From these considerations, we derive the following comprehensive rule:

General Rule. — *Debit that person, department of the business, or period of time that receives, or costs, value; and credit that person, department of the business, or period of time that gives, or produces, value.*

Since money is the medium through which other things are usually acquired — the thing with which other things are purchased — we shall start with cash and buy other things, then exchange things for cash, and finally state the outcome in profit or loss.

Illustrative Transactions

Jan. 2, 19 —. David Hartman began business with a cash investment of $2000.

The history of this business dates from the proprietor's investment. The one who writes this history — the bookkeeper — is not concerned with Mr. Hartman's private affairs; it is his duty to record and account for such portion of Mr. Hartman's wealth as has been set aside as the capital of this particular undertaking. The fact of David Hartman's ownership Jan 2, involving the owner and the thing owned, requires that two accounts be opened as follows:

DAVID HARTMAN, CAPITAL

							19— Jan.	2	Cash			2000.	

CASH

19— Jan.	2	D. Hartman			2000								

This record differs only in form from the ownership statements, pages 11 and 12, and merely shows the relation of the owner to the thing owned. One is a creditor, the other a debtor. Note that debtor items are entered on the *left*, creditor items on the *right*, side of the account.

Jan. 3. Buy of Henry Wilson merchandise valued at $1000

This transaction effects a transfer of value from the cash fund to the goods fund; cash has been decreased, goods increased. We can record the receipt of goods as follows:

MERCHANDISE STOCK

19— Jan.	3	Cash			1000								

But how shall we indicate the decrease of the cash fund? In arithmetic we should subtract the $1000 paid from the $2000 received, to get the "answer." The answer to our problem in accountkeeping, however, is not the outcome of a single transaction, but the result of a long series of transactions covering months or perhaps years. Eventually we shall subtract, but at present we place the amount paid on the opposite side, thus:

CASH

19— Jan.	2			2000		19— Jan.	3	Mdse. Stock		1000	

What really happened in this transaction was that David Hartman withdrew $1000 of his cash investment and reinvested the amount in goods. The cash was passed to Henry Wilson and the goods were received from him. We might have debited Hartman and credited *Cash*, for the cash withdrawn; then credited Hartman and debited Wilson for the cash paid by Hartman to Wilson, and finally credited Wilson and debited *Merchandise Stock* for the merchandise received from Wilson. But the relation of Hartman and Wilson to the business remains unchanged. The net result of it all has been to increase goods account and decrease *Cash* account by $1000. We reason, therefore, that *Cash* has given value to *Merchandise Stock*, and record the fact by one direct entry. Repeat the rule.

Jan. 4. Make the following payments: rent, $50; office desk and chair, $28; telephone service (January), $7.

These are types of things *with* which the business is carried on. Are they all of the same kind? They are all services to be rendered. But the value represented in the $50 for rent and $7 for telephone will be wholly consumed in one month, while the desk and chair will last, perhaps, 20 years. One exists as a flow of service while the other exists as a possession. Theoretically there is no difference, but practically there is a difference. Losses arise from the destruction of physical things, and to guard against those losses we usually keep them insured. For this and other reasons, which will be shown later, the desk and chair must be accounted for separately. "Short-lived" things — fuel, postage, stationery, car fares, rent, and the like — we charge to *Expense* account; office desk, typewriter, filing cabinet, safe, etc., to *Office Furniture* account, thus:

CASH

19— Jan.	2			2000		19— Jan.	3			1000	
							4	Office Furniture		28	
							4	Expense		50	
							4	Expense		7	

OFFICE FURNITURE

19— Jan.	4	Cash		28							

EXPENSE

19—											
Jan.	4	Cash		50							
	4	Cash		7							

Value to the amount of $28, $50, and $7 has been transferred from the *Cash* division of the business to the *Office Furniture* and *Expense* divisions. Debit that which receives or costs value; credit that which gives or produces value.

Jan. 5. Sell A. J. Hunt for cash merchandise valued at $400.

This transaction shows why David Hartman is in business. While rent and telephone service consume value, merchandise produces value. If we assume that these goods were sold at $100 profit, the amount belongs to David Hartman, and might properly be taken by him in cash. Value to the amount of $300 would pass from *Merchandise Stock* to *Cash*. Or, if the proprietor did not wish to draw the profit, *Cash* might be charged with $400, *Merchandise Stock* credited with $300, and the proprietor credited with $100. But we are working on longer lines. We shall make other sales and purchases, and have other expenses, and at the end of the period we shall sum up to determine the outcome in profit or loss. In the meantime, in order to record the selling price of all goods sold, we open a *Merchandise Sales* account, and give it credit for the value which this transaction yielded, thus:

CASH

19—						19—					
Jan.	2			2000		Jan.	3			1000	
	5	Sales		400			4			28	
							4			50	
							4			7	

MERCHANDISE SALES

						19—					
						Jan.	5	Cash		400	

The value received by *Cash* and given by *Merchandise Sales* in the foregoing transaction, making the former a debtor and the latter a creditor, was borrowed from *Merchandise Stock*. Goods were taken from stock by the one making the sale for delivery. Every cash sale will effect a transfer of value

from *Merchandise Stock* to *Merchandise Sales* and from *Merchandise Sales* to *Cash*. The transfers from *Merchandise Stock* account to *Merchandise Sales* will be adjusted by one entry at the end of the accounting period.

Jan. 6. Buy of Dwight Brothers for cash, merchandise valued at $350.

Value moves from *Cash* to *Merchandise Stock; Merchandise Stock* is a debtor, *Cash* a creditor, thus:

CASH

19—					19—				
Jan.	2			2000	Jan.	3			1000
	5			400		4			28
						4			50
						4			7
						6	Mdse. Stock		350

MERCHANDISE STOCK

19—									
Jan.	3			1000					
	6	Cash		350					

Jan. 8. Sell Seymour Holbrook for cash, merchandise valued at $450.

The sales department of the business has given value, cash has received value. State the rule.

CASH

19—					19—				
Jan.	3			2000	Jan.	3			1000
	6			400		4			28
	8	Sales		450		4			50
						4			7
						6			350

MERCHANDISE SALES

					19—				
					Jan.	5			400
						8	Cash		450

Jan. 8. Pay John Stout, clerk hire, $15.

This effects a transfer of value from *Cash* to *Expense*. Debit the latter, credit the former, and we have

CASH

19—						19—					
Jan.	2			2000		Jan.	3			1000	
	6			400			4			28	
	8			450			4			50	
							4			7	
							6			350	
							8	Expense		15	

EXPENSE

19—											
Jan.	4			50							
	4			7							
	8	Cash		15							

It is thus that accounts are constructed. Each transaction effects a transfer of value from one part or department of the business to another. The supply of one kind of value can be increased only by decreasing the supply of another kind; and a record by which we indicate both the increase of the one and decrease of the other is called a "double entry."

In order to carry our accounting exhibit to its logical conclusion, without undue repetition, let us assume that the transactions of David Hartman during the remainder of January resulted as follows:

Cash received	$1900.	
Cash paid		1835.
Goods purchased	1600.	
Goods sold		1900.
Office furniture bought for cash	60.	
Expenses paid in cash	175.	

These transactions in the aggregate have transferred value to the amount of $1835 from *Cash* to *Merchandise Stock*, *Office Furniture*, and *Expense* in amounts of $1600, $60, and $175, respectively, and value to the amount of $1900 from *Merchandise Sales* back to *Cash*.

Using Jan. 31 as a focal date, our accounts will now stand

Cash

19—					19—				
Jan.	2			2000	Jan.	3			1000
	6			400		4			28
	8			450		4			50
	31	Sales		1900		4			7
						6			350
						8			15
						31	Sundries		1835

Merchandise Stock

19—									
Jan.	3			1000					
	6			350					
	31	Cash		1600					

Merchandise Sales

					19—				
					Jan.	5			400
						8			450
						31	Cash		1900

Office Furniture

19—									
Jan.	4			28					
	31	Cash		60					

Expense

19—									
Jan.	4			50					
	4			7					
	8			15					
	31	Cash		175					

INTERPRETATION OF ACCOUNTS

We have thus far illustrated two steps in the process of recording business events. First, we exhibited a statement of ownership on a given date, and interpreted that statement in accounting terms. Second, we recorded transfers of value from one part of the business to another, and showed the effect of those transfers in terms of debtor and creditor. A statement of ownership holds good only for the date upon which it is made, and we have now to ascertain the facts and prepare a statement of ownership as of Jan. 31.

David Hartman's ownership Jan. 2 stood

Cash	$2000.	David Hartman, Capital $2000.

The proprietor's one asset at the beginning was $2000 cash. We have a right to assume that the one responsible for the record actually counted the cash, or considered evidences of its existence, and Mr. Hartman's right to its use. Nor can the assets on any subsequent date be determined from the record. The record is one of past events and does not show present conditions; it may show what our holdings *ought* to be, it does not show what they *are*. Recourse must accordingly be had at this point, since these assets have a tangible existence, to the things themselves. Cash must be counted, or the bank's record of cash on deposit consulted; the stock of goods must be weighed, measured, or counted, and valued; and all other property must be appraised.

Determining the extent and character of a business man's assets at any given time involves considerable labor, and is justified only when it becomes necessary to ascertain the exact status of the business. Such an event marks the close of one accounting period and the beginning of another.

If we assume that the stock of goods Jan. 31 inventories at $975, office furniture at $88, and cash at $1465, these values represent what this *period of time*, in its respective accounting divisions, passes on to the next period for its use and service. In a going business each accounting period passes on to the next all its holdings, and a record of this transfer from the old period to the new requires us to debit the latter and credit the former, thus:

Cash

19—						19—					
Jan.	2			2000		Jan.	3			1000	
	6			400			4			28	
	8			450			4			50	
	31			1900			4			7	
							6			350	
							8			15	
							31			1835	
							31	Balance, cash on hand carried to Feb. acct.		1465	
				4750						4750	
19—											
Feb.	1	Balance from Jan.		1465							

Merchandise Stock (January)

19—						19—					
Jan.	3			1000		Jan.	31	Goods on hand carried to Feb. acct.		975	
	6			350							
	31			1600							

Merchandise Stock (February)

19—											
Feb.	1	Inventory		975							

Office Furniture

19—						19—					
Jan.	4			28		Jan.	31	Value of office furniture carried to Feb. acct.		88	
	31			60							
				88						88	
19—											
Feb.	1	Inventory		88							

4. If David Hartman's property Jan. 2 was $2000, and his property now is $2528, something has happened in the meantime to produce this increase of $528, and this brings us to the fourth stage of our inquiry; namely, the *source of profit* and the *cause of loss*.

Profit arises in a mercantile business from the output of goods, and since goods pass out through the selling department, *Sales* account should show selling profit. It is the function of the *Sales* account, then, to exhibit the cost and selling price of goods sold.

Goods to the value of $2950 were bought and placed in stock. We now find only $975 worth of those goods on hand. The fact is that goods not now on hand have been disposed of through the sales department, because as sales were made from time to time, goods were taken from stock and delivered to customers. We might have credited *Merchandise Stock* and charged *Merchandise Sales* in each such transaction; but this would entail needless labor, as we may now record the total transfer of value from *Merchandise Stock* to *Merchandise Sales* in one entry, thus:

MERCHANDISE STOCK

19—						19—					
Jan.	3			1000		Jan.	31	Goods on hand carried to Feb. acct.		975	
	6			350							
	31			1600			31	Cost of goods sold, to Sales acct.		1975	
				2950						2950	

MERCHANDISE SALES

19—						19—					
Jan.	31	Cost price, from Mdse. Stock		1975		Jan.	5	(Selling Price)		400	
							8	" "		450	
							31	" "		1900	

The value lodged in *Merchandise Stock*, then, has two outlets: That which is still on hand, since the January account is to be closed, passes to the February account; the difference between that which was bought to sell and that which remains unsold, the cost price of goods sold, passes to the *Merchandise Sales* account. And since we had already credited *Merchandise Sales* with the selling price of goods sold, this account must now show the profit from sales. But there is an offset to this selling profit — the cost of things used to run the business — which we have lodged in the *Expense* account. The net earnings of the business will accordingly be the difference between gross earnings and expenses. Since the *Merchandise Sales* account shows one of these items, and the *Expense* account the other, we can find the difference, if we would observe accounting practice, only by transferring both items to a third account — *Profit & Loss* — thus:

Merchandise Sales

19— Jan.	31	Mdse. Stock		1975	19— Jan.	5			400
	31	Gross profit, carried to Profit & Loss acct.		775		8			450
						31			1900
				2750					2750

Expense

19— Jan.	4			50	19— Jan.	31	Profit & Loss acct.		247
	4			7					
	8			15					
	31			175					
				247					247

Profit & Loss

19— Jan.	31	Expense		247	19— Jan.	31	Sales acct.		775

It is the function of the *Profit & Loss* account to exhibit on the one hand the earnings, and on the other the expenses and incidental losses, of the business. It summarizes the results of all accounts that show increases or absorptions of value. These accounts are the channels through which our fund of value is increased or decreased; they measure, and the *Profit & Loss* account records, *the earning power of the business*. The conclusion to which the *Profit & Loss* account leads is *net profit*. This is the proprietor's increase of ownership, and the *Profit & Loss* account is the medium through which it is passed to his credit, thus:

Profit & Loss

19— Jan.	31	Expense		247	19— Jan.	31	Sales acct.		775
	31	Net profit, carried to David Hartman		528					
				775					775

DAVID HARTMAN, CAPITAL

19—						19—					
Jan.	31	Present Capital, carried down		2528		Jan.	2	Investment		2000	
							31	Net profit, brought from Profit & Loss		528	
				2528						2528	
						19—					
						Feb.	1	Present Capital brought down		2528	

Assembling again the *evidences of value* in relation to the proprietor's worth, we have finally

BALANCE SHEET

		Assets:									
		Cash		1465				David Hartman, Capital		2528	
		Stock of Goods		975							
		Office Furniture		88							
				2528						2528	

As the *Profit & Loss* account shows the *earning power* of the business, the *Balance Sheet* shows its *financial power* — that wherewith it may meet its financial obligations — as well as the character and extent of those obligations.

CLASSIFICATION OF ACCOUNTS

The foregoing summary has involved two considerations: First, the proprietor's investment (as shown by his assets at the beginning) in relation to his assets at the end of this business period; second, the difference between the cost and the selling price of goods sold, in relation to expenses. The business man determines his profit or his loss by the simple method of comparing what he had at some previous time with what he has at the present; but between these points in time lies the source or the cause.

These two phases of the situation may be shown by presenting in one group for comparison, the earnings and expenses of the business *between given dates*, and in another its assets, liabilities, and capital *on those dates*. One is an experience in time, the other a record of facts at the beginning and at the end of that experience. One is a record of what has been done, in so far as events have contributed to the outcome in profit or loss; the other is a statement and comparison of ownership in corroboration.

The end and aim of all business is to realize a profit. A necessary outcome of this purpose is to suffer pecuniary disadvantages in the way of expenses and occasional losses. Accounts that enter into a calculation of the profit or loss of a business are called, variously, "profit and loss," "revenue," "working," and "economic" accounts. Each of these is descriptive. Profit and loss is a clumsy adjective; and the use of "loss," as including legitimate expenses of the business, is unfortunate. What are called losses by many writers on the subject are really the profit-earning agencies of the business. They are *revenue* accounts, as they indicate the channels through which revenue reaches the business; but this term seems to exclude outgo — the expenses and incidental losses. They are *working* accounts in that they show the work accomplished; but this term is not very suggestive. This class of accounts reflects the thrift and economy of the proprietor in the management of his property; and the term *economic* seems to be more broadly descriptive than any of the others.

An incident of profit making is meeting current business obligations (liabilities), and maintaining the credit standing and consequent purchasing power of the business. Accounts that exhibit assets or liabilities are called, variously, "capital," "financial," and "specific" accounts. They are *capital* accounts in that capital is the difference between assets and

liabilities. They are *financial* accounts because they measure the financial power of the business. And they are *specific* accounts in that they specify the things of which the business is composed, and indicate the ownership of those things.

The economic accounts indicate business efficiency; the capital accounts, financial efficiency. Business efficiency is profit-earning power; financial efficiency is debt-paying or purchasing power. The ratio of value production to value consumption is profit-earning power, or business efficiency. The ratio of means of payment to liabilities is debt-paying power, or financial efficiency.

Business and Financial Statement

The calculation of profit earned, together with an exhibit of assets and liabilities in relation to investment in corroboration, should be presented periodically in the form of a statement. Such a statement should show the amount of business done and the cost of doing it in one section, the condition of the finances — the assets and the debts — in another section, thereby giving effect to the dual aspect of the business and presenting in compact form the operations of the concern during the period covered, as well as the means available for future operations.

As business methods improve and competition grows keener, those responsible for the success or failure of business undertakings are studying more closely the problems involved. The Business & Financial Statement is the basis of such study, and is called for at shorter intervals than formerly. Fiscal periods are shortening. The laws in nearly all jurisdictions require banks, trust companies, and other financial institutions to publish annual or semi-annual statements of their financial affairs. Income statements are required of all who are, under the law, subject to an income tax. Business and financial statements are often published for advertising purposes, and submitted to commercial agencies to secure financial standing in them. To the manager, a statement at frequent intervals is indispensable as a summary of past events and a guide to future policy. Because it is intended for those who may not understand accounting terms and forms, the Statement should be free of all technicalities; it should tell the whole truth in simple terms. (For form of Business & Financial Statement, see page 84.)

Personal Accounts

Because the accounts to which personal relations give rise are only incidental and not strictly a part of the interior accounting organization, they have been left to be treated separately.

Debit and credit relations with individuals, other than the proprietor, are the outcome of executory transactions. Based upon an agreement, ex-

pressed or implied, to pay money at some future time, they have a definite relation to the cash account. Debts owed *to* us (debtors) may be regarded as "future cash" or things owned by us. Debts owed *by* us (creditors) must be paid in cash, and they represent a pecuniary interest in our assets (see pages 12 and 14). This does not mean that personal accounts are debited and credited only for cash payments. In a mercantile business customers are usually charged for goods sold them and credited when such charges are settled. Settlement may be made by a return of a part or all of the goods, by note, by acceptance of a draft, or by cash. They are often credited for allowances, rebates, and discounts. These same conditions reversed create and extinguish accounts with those from whom goods are bought.

One way in which personal accounts differ from all others is that they increase with the increasing number of people with whom a credit business is done. One sales account will record sales aggregating $100000 as easily as it will record sales aggregating $100. But the larger business might involve accounts with 500 or 5000 customers. The transient nature of many personal accounts — the rapidity with which new names often appear and old ones disappear — makes it necessary, where any considerable number are involved, to handle them in separate groups and in a different way. The accounts of customers are referred to collectively as "accounts receivable"; those of trade creditors, as "accounts payable."

Illustrative Transactions

Exercise 1

1.—Let us assume that the following sales are made, all on terms of 10 days' credit:

Nov. 2, E. A. Watkins, $356; Nov. 4, W. F. Thayer, $76.85; Nov. 10, E. A. Watkins, $112; Nov. 11, A. G. Gould, $218.36; Nov. 20, A. G. Gould, $87.50; Nov. 26, W. F. Thayer, $231.18.

This is material from which to construct the following accounts:

Merchandise Sales

						19—							
						Nov.	2				356		
							4				76	85	
							10				112		
							11				218	36	
							20				87	50	
							26				231	18	

E. A. WATKINS, Portland, Oregon

19—												
Nov.	2	Net, 10 days		356								
	10			112								

W. F. THAYER, Spokane, Wash.

19—												
Nov.	4	Net, 10 days		76	85							
	26			231	18							

A. G. GOULD, Boise City, Idaho

19—												
Nov.	11	Net, 10 days		218	36							
	20			87	50							

Copy the above accounts on a sheet of ledger paper. Assume that Gould returned goods Nov. 17 to the value of $27; that Watkins returned goods Nov. 11 to the value of $18.50; and that all other indebtedness was settled in cash at maturity. Credit persons for the value they give. Debit *Merchandise Sales* for goods returned by customers. Open a *Cash* account and charge cash for the value it receives.

2. — Make the following purchases on terms of 20 days' credit:

May 7, Bossard & Co., $436.57; May 8, The Benham-Bates Company, $650; May 15, Bossard & Co., $346.84; May 17, Voss & Voss, $213.12; May 23, The Benham-Bates Company, $218.60; May 24, Bossard & Co., $96.50.

On a sheet of ledger paper open accounts with these persons and one with *Merchandise Stock*. In accordance with the general rule (page 21) group the above items in account form.

3. — Assume that, in the above exercise, Voss & Voss made us an allowance on the invoice of May 17 for short delivery of $10.50, for which credit *Merchandise Stock;* and that all other items were settled at maturity in cash. Show how these settlements would affect the accounts involved.

4. — Open a ledger account with Both & Weston and show by entries in the account how it would be affected by the following transactions: Feb. 1, 19—, we owe them $250. Feb. 7 we pay them $200. Feb. 9 we buy of them goods to the value of $325. Feb. 12 we return goods for credit, $37.35. Feb. 20 we give them our note at 20 days for $200 and cash for the balance due.

5. —Write out in words at length statements of events that would give rise to the following entries on your ledger.

STEPHEN K. ADLER & Co., Houston, Texas

19—						19—						
May	1	net 30 days	37	356	40	May	31		43	356	40
	27	" " "	68	117	63	June	10		52	35	60
June	8	net cash	72	35	60		26		61	117	63
	17	net 30 days	85	486	19		30	Balance c/d	√	486	19
				995	82					995	82
19—											
July	1	Balance b/d	√	486	19						

BENHAM SONS & Co., 768 Broadway, New York

19—						19—					
May	12		46	342	87	Mar.	13	net 60 days	34	342	87
	15	Returns	12	125			25	" " "	44	786	
	16		48	212	16	April	16	" 30 "	52	212	16
	17	Freight	49	18	50		27	" 60 "	57	345	74
	24		52	400							
	30	Balance c/d	√	588	24						
				1686	77					1686	77
						19—					
						June	1	Balance b/d	√	588	24

Classification and Comparison

If the proprietor would know at the end of any stated period what have been his purchases, sales, expenses, and business in the aggregate during the period, and the outcome of his business in profit or loss, transactions must be recorded in such groups as will exhibit the result of each business activity. In forming groups of items your knowledge of the principles of arithmetic in combining concrete numbers is a sufficient guide. Only like numbers may be added, and only like items may comprise the same group. The work of the bookkeeper is essentially a work of classification and comparison. With these suggestions in mind, you may begin now with business transactions and collect, classify, and record facts and events in related groups, and finally determine the results to which such facts and events lead.

Illustrative Transactions

Exercise 2

Jan. 2, 19—. Frederick Ward is engaged in the business of buying and selling wheat, with an investment of $5500 in cash.

2. Buy of Willet Brothers for cash 300 bu. #1 wheat @ 99¢.
3. Buy of W. W. Orr for cash 300 bu. #2 wheat @ 80¢.
4. Sell Wilson Young for cash 200 bu. #1 wheat @ $1.05.
5. Buy of A. W. Gates & Son for cash 400 bu. #1 wheat @ 95¢.
6. Sell H. O. Vooris for cash 100 bu. #1 wheat @ $1.10.
8. Buy of Henry Wood & Co. for cash 500 bu. #2 wheat @ 85¢.
9. Sell Albert Cummings for cash 300 bu. #2 wheat @ $1.
10. Sell Wilson Young for cash 200 bu. #1 wheat @ $1.10.
12. Sell the Stewart Milling Co. for cash 200 bu. #2 wheat @ 98¢.
13. Buy of A. W. Gates & Son for cash 5000 bu. #1 wheat @ 98¢.
14. Sell Dunn & Dolan for cash 300 bu. #2 wheat @ 99¢.
15. Sell H. O. Vooris for cash 5000 bu. #1 wheat @ $1.08.

Procedure

Record in one group all purchases of #1 wheat, and directly underneath in another group the purchases of #2 wheat. State the total quantity of each kind of wheat purchased and the value of all purchases. In the same manner group the sales. Find the total amount of cash received by the business, including the cash investment. Find the total of cash paid. Find the amount of cash the business should have on hand.

If you were the cashier of this business, how would you verify this calculation? For what purpose was the wheat bought? How many bushels of each kind? How many bushels of each kind were sold? Should there be any wheat on hand Jan. 15? How much? What is it worth (cost of last invoice, 98¢)? Do the facts that we bought so many bushels and sold so many bushels prove that we have so much left? What might have happened to the wheat not sold? How would a business man determine the quantity and value of property on hand at any given time?

Assuming that Mr. Ward has the money and wheat that your records show he ought to have, what is Mr. Ward's capital Jan. 15? How much did he invest? The difference between his capital Jan. 1 and Jan. 15 must represent what?

If you find that Mr. Ward's business has earned a profit or suffered a loss, you should now determine the source of such profit or the cause of such loss. Use the following formula:

Source of profit (or cause of loss):		
Selling price of wheat sold		$
Cost price of wheat bought to be sold	$	
Cost price of wheat unsold	_____	
Cost price of wheat sold		_____
Profit (or loss)		$

NOTE. — If a loss has been sustained, the amount is obtained by inverse subtraction.

Profit, then, is the outcome of what two factors? In your calculation, does the difference between the cost and selling price of the wheat sold agree with the difference between investment and present capital?

Assuming that Mr. Ward's business expenses were $350, what was his profit or loss? Assuming that his expenses were $756, what was his profit or loss? Describe two methods of finding the profit or loss of a business.

PROBLEMS

1. Jones & Jackson, merchants, had property Jan. 1, 19—, valued at $18756. On Dec. 31, same year, their property was worth $24365. (*a*) What was their profit during the year? (*b*) Goods that have been sold for $32918 at a profit of $8609 must have cost how much? (*c*) The goods referred to in (*b*) were sold at what profit per cent? (*d*) The investment of Jones & Jackson earned what per cent of profit, assuming that there were $3000 business expenses? (*e*) State two methods of calculating profit.

2. Richard Stanley began business Oct. 1, 19—, with an investment of $8000 in cash and real estate valued at $18375. One year later Stanley's assets were $37657 and he owed $5345. What had been his profit or loss? His profit or loss per cent on investment?

3. The firm of Richter & Rogers had a stock of merchandise June 30, 19—, valued at $12475. During the following six months they purchased $15680 and sold $24690 in goods. If the sales averaged a profit of 27%, what should have been the value of the stock Dec. 31, of same year? What was the cost price of the goods sold?

4. E. M. Boles & Son, merchants, inventory their stock Jan. 1, 19—, at $17680. During the year they purchased $23496 worth of goods. Dec. 31, of same year, their stock was valued at $15540. Assuming that all goods not in stock had been sold, find the cost price of the goods sold. At what price must these goods be sold to make a profit of 25%? At what price must they be sold to make a net profit of 15% after deducting running expenses of $3500?

5. Johnson & Co. commenced a trading business April 1, 19—. During the six months ended Sept. 30, of same year, they had purchased $27000

in goods. Their sales during the same period amounted to $15300. Stock on hand Sept. 30, of same year, was valued at $17450. Freight and drayage on goods bought during the period had been $517. (*a*) Find the cost of goods sold, (*b*) the gross profit, and (*c*) the selling profit per cent.

6. A fire on Aug. 17, 19—, destroyed the entire stock of Burns & Belcher, carpet dealers. The stock was insured and the insurance company settled for $30000. Their books showed that the stock inventoried Jan. 31, same year, at $37805. Purchases for the period Feb. 1 to Aug. 17, were $26186.70. Sales for the same period, $32641. Freight and drayage on purchases had been $816.50, and running expenses $6148.73. Find the net profit or the loss.

7. Price & Paradis, grocers, had a stock of goods, cash, and other property Jan. 1, 19—, valued at $18375. Their debts at that time amounted to $6317. During the past year they had made a net profit of $2360. Jan. 1, past year, their debts were $5627. What must have been the value of their assets at the beginning of the past year?

8. James Wilson began business Jan. 1, 19—, with a capital of $5000. During the year following he drew from the business $350. His gross profit was $2759.87. His losses and expenses were $1213. What was his capital Dec. 31, same year?

CONTENT AND FORM OF THE RECORD

The content and the form of a business record are determined by different considerations. Because the memory is untrustworthy and some people are dishonest, books are kept as evidence of executory agreements. Rules of evidence require that the record should be made when the transaction occurs by some one having adequate personal knowledge of the terms involved. This consideration makes it necessary to date all transactions and carefully state the terms of all agreements. Original entries, not copies, are admitted as evidence by the courts in case of litigation, and this written testimony should not be impeached by erasures nor its value impaired by alterations not fully explained. *Make your entries tell the whole truth. Corrections should be fully explained. Never erase an original entry.*

Aside from its value as evidence of the relations with outside parties, a record is kept for the information and direction of those responsible for the success of the business involved. Past experience should serve as a guide to future policy, and a record of this experience in all its detail is essential to the success of a business of any size.

In the accomplishment of the various purposes for which books are kept, if the bookkeeper would economize time and labor, if he would avoid errors and entanglements from which he will find it difficult to extricate himself, one rule must determine the procedure in every case involving the same conditions. In other words, the bookkeeper should have a form for each type and kind of entry, and adhere strictly to that form. Each part of the entry should have a definite position with reference to the other parts. In this way only can entries be made brief and compact, and omission of important parts be prevented.

If entries are made as transactions occur, they must appear in the record in chronological order. Any narrative of daily events is called a "journal," and from this meaning of the word we get the name of the book, or collection of books, in which business events are written in order of time. The journal, then, is the book of first entry, containing a record of transactions, in the order of their occurrence, including all the divisions of that book, such as cash book, sales book, purchase book, bill book, etc.

An unclassified chronological record, as a book of reference, is inadequate. Questions are all the time arising, such, for instance, as those asked in connection with exercise 2, page 39, that can be answered only by classifying, analyzing, and comparing the facts of the business; and if he would be in a position to answer these questions, the bookkeeper must assort

the unclassified business data and group the related facts in a second book. Another consideration, therefore, that determines the *form* of the first entry is, that the essential facts of this entry, such as the date, terms, and amount, must be transferred to a second book, and since this transfer is attended with painstaking care to prevent errors, the form of the journal entry should facilitate in every way possible the labor involved.

Accordingly, two records should be kept. The first, which will appear in chronological order, should contain all the facts, and be written in convenient form for transfer. The final entry, a restatement of the essential facts of the first, should be arranged in systematic form for convenient reference. This transfer of entries from the journal is called "posting," and the book in which these entries are finally lodged is called the "ledger." A group of related facts assembled in the ledger to indicate the outcome of some particular activity or department of the business is called an "account." A group of related accounts, or conclusions resulting therefrom, is called a "statement" or a "balance sheet."

The following exercises are intended to give the student practice in applying the principles involved in double entry bookkeeping, or rules for journalizing. Much may be gained in the mastery of these principles by writing out in words at length the name or names of the debtor and creditor elements in each transaction. This form of statement is called a "journal entry"; the work of recording transactions in this way, "journalizing."

You must interpret each transaction in terms of debtor and creditor. In each completed transaction there is a transfer of value from one part of the business to another. Transactions not completed involve persons outside the business. Debit that person, department of the business, or period of time that receives value. Credit that person, department of the business, or period of time that gives value.

Illustrative Transactions

Exercise 3

Nov. 1, 19— (current year). P. A. Morgan begins a wholesale shoe business with a cash investment of $8500.

This event recorded in the journal would take the following form:

(Your City or Town) November, 19—

		1			
		Cash	8500		
		P. A. Morgan, Capital			8500
		Investment			

This is the bookkeeper's way of stating that P. A. Morgan is the owner of $8500 which he has set aside for the use of a certain business undertaking. The thing owned is a debtor; the owner, a creditor.

NOTE. — It is assumed that owners have given value in exchange for the things owned. This assumption holds good in every business transaction. Things are sometimes acquired by gift or inheritance; but even in such cases there is the legal consideration of love and affection, or family relationship. Some inducement, or consideration, always prompts the giver. It is the function of the bookkeeper, however, to record facts. The facts involved in an opening entry of a business undertaking are (1) the things owned by the proprietor of the business and their value, and (2) the owner or owners of such things and the value of their property rights.

Nov. 1. Lease offices and business premises of Benjamin Webster, agent, at a yearly rental of $1200, and pay November rent in advance, $100.

Entry:

	1			
	Expense		100	
	Cash			100
	Benj. Webster, Nov. rent			

Mr. Morgan, the proprietor, has, in effect, withdrawn $100, and with it purchased the use of a building one month. Morgan has parted with one form of value and acquired another. We reason that that part of the business we call "Cash" has given value to that part of the business we call "Expense." Debit the receiver and credit the giver.

Nov. 2. Pay Tuska & Co. for office furniture as follows: 1 roll-top desk, $50; 1 armchair, $8; 2 cane-seat chairs @ $2.

Entry:

	2			
	Office Furniture		62	
	Cash			62
	Paid Tuska & Co. for			
	1 roll-top desk	50		
	1 armchair	8		
	2 cane-seat chairs @ $2	4		

Sixty-two dollars of the original cash investment has been reinvested in another form of value; namely, "Office Furniture." This differs from the value acquired in the last transaction in that it has a physical existence and a probable longer life. It is a kind of property that should be covered

by insurance, and is therefore set up under a separate head. Which is the debtor? Which the creditor? Why?

Nov. 2. Buy of Walter Eddy & Co. for cash 350 A @ $1.25

Entry:

	2				
	Mdse. Purchases	437	50		
	Cash			437	50
	Paid Walter Eddy & Co. for inv. 11/1				

NOTE. — See Trading Accounts, page 91, for explanation of first item in the above entry.

Cash has given the purchase department of the business value amounting to $437.50. Which is the debtor? The creditor? Why?

Nov. 9. Pay Wm. Brown, $14; F. A. Jones, $13, salaries for the week ending to-day.

Entry:

	9				
	Expense	27			
	Cash			27	
	Paid Wm. Brown, $14; F. A. Jones, $13, salaries to date				

Repeat the rule. This is a transfer of value from *Cash* to *Expense.* Name the debtor. Can there be a receiver without a giver of value? Can there be a debtor without a corresponding creditor? Name the creditor.

Nov. 15. Sell Edward Davis on terms of 30 days' credit, 200 E @ 60¢.

Entry:

	15				
	Edward Davis, net 30 days	120			
	Mdse. Sales			120	
	Sale per invoice 11/15				

This is an incomplete transaction. In 30 days Edward Davis will pay for these goods. What department of the business has given value? Who received this value? Name the debtor. The creditor.

Each entry involves three considerations: (1) *a statement of what actually occurred* in the transaction; (2) the *names of the debtor and of the creditor;* (3) and *the form of the entry.*

The transactions analyzed (pages 42 to 44) are reproduced on page 46 as they should appear in your journal.[1] Study the form of these journal entries. Note the relative position of debit and credit items, the position of the date, and the indentation of the statement of fact, or explanation, underneath. This form has a definite purpose; adhere strictly to it in making journal entries.

Many students of accounts bring to a study of the subject the erroneous impression that the end sought in any exercise is to "get the answer," without regard to the means or method employed. Unlike an isolated problem in arithmetic or algebra, an accounting problem has underlying it a series of business events; the record must answer not one but many questions, and any perfunctory method of attack can result only in failure. You will be rated, not only in school but in business life, on the manner in which you perform your work; because the manner of doing measures the value of the thing done.

Your first concern should be to perform each task, first, in such a way as to prevent errors; and, second, in such a way as to be able to trace, locate, and correct mistakes if they should occur. Do not do "rough" work. Never perform a piece of work with the idea predominant that it must be done over again anyhow, and it matters not how the first copy looks. Nothing is more pernicious in its influence than the amount of careless, scrappy, thoughtless work that students do to "get the answer." The value to you of any task is the task itself, not the result to which it leads. Proceed, and proceed only, with this attitude toward the subject.

The ledger form of the six transactions preceding this exercise is shown on page 47.[2] Trace the transfer of these items from the journal, page 46, to the ledger. Not all the facts are carried to the ledger; only the date, the page of the journal, the amount, and (in personal accounts) the terms. How many parts to a date? The year should not be omitted. Note that the year and month are not repeated.

[1] The figures in the narrow column at the left of the journal are "post-marks," which you may ignore for the present. Their use will be explained later.

[2] The figures in the narrow column at the left of the money columns in the ledger are "post-marks."

(Your Address) November 19—

	1				
1	Cash	8500			
1	P. A. Morgan, Capital			8500	
	P. A. Morgan began business as a wholesale shoe merchant on this date, with a cash investment of $8500.				
	1				
1	Expense	100			
1	Cash			100	
	Paid Benj. Webster, Nov. rent				
	2				
1	Office Furniture	62			
1	Cash			62	
	Paid Tuska & Co. for				
	1 roll-top desk .50.				
	1 armchair 8.				
	2 cane-seat chairs @ 2.00 4				
	2				
1	Mdse. Purchases	437	50		
1	Cash			437	50
	Paid Walter Eddy & Co. Inv. 1/1				
	9				
1	Expense	27			
1	Cash			27	
	Paid Wm. Brown $14. F. A. Jones $13. salaries to date				
	15				
1	Edward Davis, net 30 ds.	120			
1	Mdse. Sales			120	
	Sale, per invoice 1/15				

P. A. Morgan, Capital

						Nov.	1		1	8500	

Cash

Nov.	1		1	8500		Nov.	1		1	100	
							2		1	62	
							2		1	437	50
							9		1	127	50

Office Furniture

Nov.	2		1	62							

Expense

Nov.	1		1	100							
	9		1	127							

Mdse. Purchases

Nov.	2		1	437	50						

Mdse. Sales

						Nov.	15		1	120	

Edward Davis

Nov.	15	n/30	1	120							

Questions Based on Ledger Illustration, Page 47

1. What persons and departments of the business are represented in these accounts? 2. Comparing this ledger with the journal entries shown on page 46, on which side of the ledger do you find debtor items? 3. On which side, credit items? 4. When do we debit departments of the business? 5. When do we debit persons? 6. When do we credit departments of the business? 7. Persons? 8. For what amount is Expense debited? 9. For what amount is Cash credited? 10. For what amount are all these accounts debited? 11. For what amount are they credited? 12. Do the debits equal the credits? 13. Can you explain why there is an agreement of debits and credits? 14. Upon what did the relationship of debtor and creditor rest in the beginning, or opening entry?

15. Has the proprietor's ownership increased? It is absolutely important that you understand the law upon which this equation rests. Go back to the source of these items in the ledger, study each transaction, the journal entry and the explanation accompanying each, and write down the reason for this equality of debits and credits. 16. In transferring items from the journal to the ledger should the journal show the place in the ledger to which the transfer is made? 17. How could that be shown? 18. Should the record of each item in the ledger show where it came from? 19. How could that be shown?

WHOLESALE SHOE BUSINESS

Exercise 4

If you have made a careful study of the preceding pages, you should have little difficulty in journalizing the following transactions. The work that follows covers a period of three months, November, December, and January. Although the narrative of transactions is continuous and should comprise a continuous record when completed, for purposes of study and instruction it has been divided into sections, or exercises.

That the student may concentrate all possible attention on the essentials and not be burdened at present with clerical work, symbols have been employed to indicate the articles bought and sold. In business offices detailed records of purchases and sales are made on typewriting and billing machines, in the form of invoices. The originals or copies of such invoices are on file, and are referred to in the financial record by date or number, so that they are always available for reference.

Opportunity will be given later to write, handle, and study business papers. It is not deemed necessary, however, at the beginning to reproduce any of the details involved. Nor is it advisable to wholly ignore this quantitative record. Accordingly, the symbols A, B, C, etc., have been employed to represent the quantity, quality, style, etc., of the goods bought and sold.

With frequent reference to the foregoing explanations and the illustration on page 46, and with the debit and credit rule always in mind, journalize the following transactions in the proper blank book.

Nov. 1 (current year). P. A. Morgan begins a wholesale shoe business on this date at (your address) with a cash investment of $8500.

1. Lease offices and business premises of Benjamin Webster, agent, at a yearly rental of $1200, and pay November rent in advance, $100.

2. Pay Tuska & Co. for the following office furniture: 1 roll-top desk, $50; 1 armchair, $8; 2 cane-seat chairs @ $2.

2. Buy of Walter Eddy & Co. for cash 350 A @ $1.25.

3. Buy of Fagan & Kendrick for cash 400 D @ 75¢.

4. Pay Tuska & Co. for 1 typewriter $100.

5. Sell A. J. Ackley for cash 50 A @ $1.60.

7. Buy of Ely Abrams on terms of 30 days' credit 500 E @ 40¢.

9. Sell Frederick Austin on terms of 30 days' credit, 100 D @ 75¢.

The following is a copy of a shoe invoice:

All Bills Subject to Sight Draft if not Paid at Maturity

INVOICE FROM

WALTER EDDY & COMPANY

2417 A

Terms: Strictly 20 Days, less 2%
No Discount allowed after 20 Days

ST. LOUIS, Mo., Nov. 1, 19—

SOLD TO P. A. Morgan

Address (Your place)

Shipped via M. K. & T. Packages Cases 2
492 493

Stock No.	Pairs	Men's, Boys', or Y'ths'	Material	Butt., Bal., Cong., Etc.	Last	Cap or Plain Toe	Width	Price	Amount
44269	16	M	Eli Cf	Bal	Phil	Cp	7	2.62½	42.
44271	15	"	Bx Cf	Blu	Tomorrow	"	4	2.66⅔	40.
44275	6	"	Vel	"	Lipt	"	"	2.33⅓	28.
44277	6	"	Bx Cf	"	Chic	"	5	"	
	43								110.

9. Sell S. E. Rodgers for cash 100 E @ 60¢.
9. Pay salaries for the week: Wm. Brown, $14; F. A. Jones, $13.
9. Pay for postage, stationery, and petties, $6.

If the proprietor of the business should wish to know at this point the amount of business done, what the expenses have been, etc., we must take the facts recorded in the journal and group them so as to bring related items, such as sales, purchases, expense, cash, etc., together. As explained heretofore, this grouping is done on another form called the "ledger," and the transferring of entries from the journal is called "posting."

Posting

An important function of the book of original entry is to serve as a *posting medium*, and convenience in the work of posting should determine its form. Titles of accounts should be written in a large, plain hand, and

should stand out distinctly; explanations, in a small hand, should be kept away from the folio column. The books of original entry should be footed before the posting begins. All books should be paged and the ledger carefully indexed. (See Ledger Index, page 53.)

A transaction is a transfer of value from one part or department of the business to another. That which receives value is a debtor; that which gives value, a creditor. And since there cannot be a giver without a receiver, and *vice versa*, a record of each transaction comprises at least two *items*, a *debit item* and a *credit item*. And since debit items must occupy the *left* page and credit items the *right* page of the ledger, you must know positively before you post an item whether it is a debtor or a creditor. *There are no debit and credit positions in the book of original entry.* Your only reliable guide is the rule: *That person or department of the business that has received or cost value is a debtor; that person or department of the business that has given or produced value is a creditor.* You must learn, understand, and rigidly observe this rule in posting each item.

Posting an item comprises two distinct operations. First, transferring the required information, usually only the date and the amount, from the journal to the ledger; second, indicating in the ledger the page of the journal *from which*, and in the journal the page of the ledger *to which*, the transfer is made. The student should concentrate all possible attention upon the matter of post-marking, and thus checking, an item at the time the item is posted. Omissions and repetitions can be prevented in no other way; and, because the indifferent student will neglect the post-mark, it is, for the beginner, one of the most important parts of the operation.

In posting the accounts of customers and trade creditors, indicate in the wide column of the ledger the *terms* of each sale or purchase, as the case may be. In posting *closing entries* write in the wide column of the ledger the name of the account from which or to which the transfer is made.

If you have studied the directions for posting you may now proceed to post the journal entries, Nov. 1 to 9. Transfer each debit item, the date and the amount, to the *left* side of the ledger account indicated in the journal entry, and each credit item to the *right* side. When you post a charge to a customer's account, or a credit to a trade creditor's account, remember to indicate the terms of the sale or the purchase, as the case may be, in the wide column of the ledger. After you post an item, remember to enter the journal page in the ledger folio column and the ledger page in the journal folio column. You are less likely to make mistakes if you make the posting of items of one account and to one side of the ledger continuous, although items do not occur in the journal in this order; otherwise your destination in the ledger changes with each item, which is more or less confusing.

Ledger Index

Names (surname first)		Page	Names (surname first)		Page
A			**B**		
Abrams, Ely	(8)	11	Barnard Shoe Co.	(8)	12
Ackley, A. J.	(7)	7	Bennet, John	(8)	9
Austin, Frederick	(8)	7			
C			**D**		
Cash	(32)	2	Davis, Edward	(8)	7
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E			**F**		
Eddy & Co., Walter	(8)	11	Fagan & Kendrick	(8)	12
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Expense	(28)	6	Freight & Drayage	(10)	5
			French Bros.	(8)	11
G			**H**		
Goodrich, Henry K.	(8)	9	Holbrook & Hayward	(7)	11
Graber, George	(8)	10			
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I-J			**K-L**		
Interest	(9)	5	Kingsley, R. S.	(8)	8
Isaacs, Isidore	(8)	7	Lawrence, Rulif V.	(8)	8

M			N		
Mdse. Discount	(12)	5	Notes Payable	(7)	3
Mdse. Purchases	(19)	4	Notes Receivable	(7)	2
Mdse. Sales	(19)	4			
Mdse. Stock	(8)	5			
Morgan, Capital, P.A.	(13)	1			
Morgan, Private, P.A.	(13)	1			
Mortgage Payable	(7)	3			
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Office Furniture	(11)	3	Real Estate	(7)	3
Profit & Loss	(11)	6	Rodgers, S.E.	(8)	9
			Steen, John E.	(8)	8
T-U-V			**W-X-Y-Z**		
Vance, L.L.	(8)	7	Wickwire Bros.	(8)	8

Ledger Index

A ledger index showing the accounts you will operate in connection with the business of P. A. Morgan, the ledger pages on which these accounts should be opened, and the number of lines to give each account is shown, pages 52 and 53. The number in parenthesis after the name of the account indicates the number of lines' space required, but these numbers are not a part of the index. Copy this index on your index blank, and open the accounts accordingly. Number the pages of your journal and ledger.

THE TRIAL BALANCE

Purpose of the Trial Balance

Obviously, if receivers of value in every case have been made debtors and givers of value, creditors, since debtor items should be entered on the left and creditor items on the right side, the two sides of the ledger should be equal. If mistakes have been made to destroy this equilibrium, they should be located and corrected before proceeding further with the work. It is the practice of bookkeepers to test the accuracy of their work immediately after the posting is completed by totaling the two sides of the ledger. This test is called a " trial balance."

The purpose of the trial balance is to test the accuracy of the bookkeeper's work. It does not disclose all errors. If you had made a mistake in Frederick Austin's invoice of the 9th, charging him $65 instead of $75, the mistake would affect two accounts; namely, *Frederick Austin* and *Merchandise Sales*, and would not disturb the equation. If you had posted to the wrong account, but not to the wrong side of the ledger, the footings of your trial balance would still be equal. However, it does disclose errors in applying the law of debit and credit underlying each transaction, errors of posting to the wrong side of the ledger, errors of omission and repetition, errors in copying, adding, and subtracting, after the original entry is made, etc.

You may now proceed to make a trial balance of your ledger in accordance with the following instructions.

Procedure

With a sharp pencil, in small legible figures, write the footing, or footings, of each account in your ledger that has more than one item. These pencil footings should be written close under the blue line on which the last item was entered so they will not interfere with subsequent entries. The first addition should be from the top down; then, if it becomes necessary to review the work, add from the bottom up.

After the footings of all accounts have been carefully stated write on a sheet of journal paper and in the order in which they occur in the ledger, the names of all accounts the footings of which are unequal. After each account enter its ledger footings — debit footing in the left, credit footing in the right column. Indicate the ledger page of each account in the folio column at the left, and write the caption *TRIAL BALANCE*, together with the date on which it is taken, at the top of the page. State the footings

of the trial balance in small pencil figures. If the footings are equal, single and double rule the columns, and enter the totals in ink. If the totals of the trial balance are unequal, a mistake has been made, and you should proceed in a systematic manner to locate it as suggested below.

When the Trial Balance shows a Difference

In the matter of errors every precaution should be taken to prevent them. It often takes many hours to locate and correct mistakes that a little concentration and attention would have prevented. But if a mistake does occur, you must review your work with systematic care to find it. No definite rules can be given for this procedure. The following general suggestions, however, may be of service.

To find Errors in Trial Balances

In the first place, be sure that you understand *why* there should be an equality of debits and credits. If you do not understand this, you are groping in the dark; no cut-and-dried formula can help you.

Second, make sure that your additions and subtractions are correct. Few persons can add and subtract without making mistakes. Correct addition begins with writing the numbers to be added. If your figures are illegible, alterations frequent, and columns zigzag, there is no help for you in this work until you correct these faults. If you neglect to state the footings and differences the first time over your work, as you have been instructed to do, you have nothing with which to compare the results the second time over.

Third, mistakes commonly occur in copying numbers. Figures are transposed or transplaced; 89 is called 98, or 75¢ is written as $75, etc. Transposition of figures will lead to a difference in your trial balance which is exactly divisible by 9. Transplacement will lead to a difference exactly divisible by 99. But it is doubtful if this method of locating an error has much practical value.

Fourth, if you have posted an item to the wrong side of the ledger, the mistake will result in a difference of twice the amount so posted.

Fifth, if you have overlooked an item, either in posting or transferring accounts to the trial balance sheet, the mistake will result in a difference in the trial balance of the amount overlooked.

The surest way of locating an error, after you have made certain that the mistake is not in addition or subtraction, is to check back your posting. With a sharp pencil *check* (√) *lightly each item in the ledger* and *each corresponding item in the journal, placing the check mark close to the double lines of the money column.* Do not jump from one side of the ledger to the other; check all the debit items, then all the credit items. Carefully scrutinize each item to see if you have transferred the exact amount to its proper

Trial Balance, November 9, 19-

1	P. A. Morgan, Capital			8500	
2	Cash	7607	50		
3	Office Furniture	162			
4	Mdse. Purchases	937	50		
4	Mdse. Sales			215	
6	Expense	133			
7	Frederick Austin	75			
11	Ely Abrams			200	
		8915		8915	

place in the ledger. The ledger, in so far as amounts and their relative position are concerned, is a copy of the journal.

NOTE. — Some accountants prefer to use the dot (.) as a check mark. While it is doubtful whether this can be made as distinct and with as great speed as the other form, it will give the page a less ragged appearance. In case rechecking becomes necessary, both forms may be used conveniently.

A Trial Balance of Concrete Results

Accounts usually comprise both debit and credit items, representing value received and value given. The *Cash* account in exercise 4 has received $8640 and given $1032.50. These two facts are important, but more important is the conclusion to which they lead; namely, the amount of cash we should have on hand, $7607.50. If a personal account shows a debit of $4430 and a credit of $110, the essential thing with reference to this account is the *excess* of the debit over the credit, $4320. Taking the difference between the footings of an account, and using that difference instead of the footings in the trial balance, substracts the same amount from both sides and does not disturb the equation. And a trial balance of differences — concrete results — serves the double purpose of testing the accuracy of the bookkeeper's work and expressing concretely the conclusions to which the various accounts lead.

You may now make a trial balance of concrete results.

Procedure

State in the ledger the difference if any between the footings of each account in the wide column on the *left* side in pencil. Transfer all accounts

to a sheet of journal paper, as directed above, entering all debit balances in the left, and all credit balances in the right column. Foot the trial balance and state the footings in small pencil figures. If the footings are equal, ink in the amounts and rule. Write above this list of items the heading: *Trial Balance, November 9, 19—* (current year), as shown on page 56.

WHOLESALE SHOE BUSINESS (Continued)

Exercise 5

If you have tested the accuracy of your ledger by means of a trial balance and found the same to be correct, proceed to journalize the following transactions. This is a continuation of the business of P. A. Morgan. Your entries should follow those of Nov. 9, without leaving a blank space.

Nov. 11, 19—. Sell L. L. Vance, terms 10 days, 100 A @ $1.55.

11. Pay Bank Brothers for office stationery, $30.

11. Buy of the New York Store for cash 150 B @ $2.

12. Sell A. C. Fontaine for cash 100 D @ 98¢.

14. Buy of Holbrook & Hayward, terms 30 days, 150 C @ $2.50.

15. Sell John Bennett for cash 100 A @ $1.60.

15. Sell Edward Davis, terms 30 days, 200 E @ 60¢.

16. Buy of Walter Eddy & Co., terms 30 days, 500 A @ $1.25.

16. Pay Wm. Brown, $14; F. A. Jones, $13, salaries for the week.

16. P. A. Morgan drew for personal use, $40. (Charge Morgan's Private account.)

19. Sell Isidore Isaacs, terms 10 days, 50 C @ $3.

20. Receive of L. L. Vance for invoice of the 11th inst. $155.

20. Pay R. H. Macy & Co. for office furniture:

1 filing cabinet	$50
1 high desk	10
1 stool	3

Post and take a trial balance of differences, dated Nov. 20, which should include all items from Nov. 1.

LABOR-SAVING BOOKS

Sales Book

We shall at this time adopt a form of recording some of the transactions in the journal so as to save labor, both in recording and posting. Thus far each entry has involved posting at least two items; and since the purpose of posting is to group items in the ledger, we may save labor by grouping related items in the journal and posting the totals.

To illustrate, sales transactions recur again and again, and the credit item involved in a sale is always the same; namely, Merchandise Sales. And since these items are carried to the same place in the ledger and there added, we shall save many entries in the ledger by grouping these items in the journal and carrying over the total when we post. Study the following form:

Merchandise Sales

19— Nov.	21		A. J. Ackley 2/10 n/30			
			200 A @ 1.60	320		
	21		Richard Grainger net cash			
			200 E @ 60¢	120		
	22		Rulif V. Lawrence n/30			
			100 C. @ 3.	300		
	23					
	23					
	25					
	28					
	28					
	28					
	28					
	29					
	30		Mdse. Sales Cr.			???

There are eleven transactions from Nov. 21 to 30 involving a credit to Merchandise Sales. If we journalize these transactions as you have been doing, we shall have to post 22 items. By using the foregoing form you need post only 12 items, a saving of nearly 50 per cent of time and work.

Turn to page 11 of the journal, write the heading *Merchandise Sales*, and enter all sales under this heading. Compare this ruling with the form on which entries were made in the preceding exercises. Use the two columns on the left for the date, and the adjoining column for the ledger folio. Note that the month and year are written only once.

WHOLESALE SHOE BUSINESS (Continued)

Exercise 6

Transactions in the business of P. A. Morgan for the remaining days of November follow.

Nov. 21, 19—. Sell A. J. Ackley, terms 2/10 n/30, 200 A @ $1.60.

Note. — "2/10 n/30" means that the term of credit is 30 days, but that a discount of 2% will be allowed for payment in 10 days.

Attention is called to the wide variation in the terms on which goods are sold in these exercises. This plan, although at variance with business custom, is necessary in order to properly grade the work so that the student will not encounter difficult problems at the beginning.

21. Sell Richard Grainger, net cash, 200 E @ 60 ¢.
22. Buy of Ely Abrams, 1¾/10 n/30, 500 E @ 40 ¢.
22. Sell Rulif V. Lawrence, net 30, 100 C @ $3.
23. Buy of French Brothers, 2/10 n/30, 300 C @ $2.50.
23. Sell Wickwire Brothers, 3/10 n/30, 200 A @ $1.60.
23. Sell R. S. Kingsley, n/10, 50 B @ $2.50.
23. Pay Wm. Brown, $14; F. A. Jones, $13, salaries for the week.
23. Pay P. A. Morgan, personal drawings, $25; petty expenses, $3.
25. Pay J. Dodd for signboard "P. A. MORGAN," $15. (Charge *Office Furniture.*)
25. Sell John E. Steen, n/60, 150 E @ 62 ¢.
26. Buy of David Dunn, 2/10, 200 B @ $1.90.
28. Sell Isidore Isaacs, terms 30-day note, 84 C @ $3.

Note. — Make no entry for the receipt of this note until there is a direct statement that the note has been received.

28. Sell John Bennett, 2/10 n/30, 100 A @ $1.25.
    Sell A. C. Fontaine, net 10 days, 100 D @ $1.
    Sell S. E. Rodgers, net 10 days, 75 E @ 60 ¢.

29. Receive of Isidore Isaacs cash $150 for invoice of Nov. 19 and his 30-day note dated Nov. 28, $252, in settlement of invoice of that date.

NOTE. — Here we have a new species of value, called "notes receivable." Debit *Notes Receivable* when you receive the negotiable promises of others, which include the notes and accepted drafts of others, in your favor.

The entry for the foregoing is as follows:

	29		
	Cash	150	
	Notes Receivable	252	
	Isidore Isaacs		402
	Received of I. Isaacs cash for inv. 11/19 $150 and his 30-day note of Nov. 28 for invoice of that date, $252.		

29. Give Rulif V. Lawrence credit for merchandise returned, 25 C @ $3.

What entry did you make when you sold these goods to Lawrence on the 22d inst.? Since the conditions are now reversed, the entry must be reversed. Debit *Merchandise Sales* and credit *Rulif V. Lawrence.*

29. Sell Clayton Ensign, 3/10, 150 B @ $2.60.

30. Make the following payments: Mosler Safe Co. for office safe, $250; Wm. Brown, $14; F. A. Jones, $13, salaries for the week; petty expenses, postage, etc., $6; P. A. Morgan, personal drawings, $35.

Post all entries and take a trial balance of differences dated Nov. 30, 19—. Foot and rule the items comprising the group of sales transactions, following the form given on page 58. Name the debtors in this group of items. Name the creditor. What is the class name for those to whom we sell goods? Remember, we have set aside this group of items to save labor in posting. Post the *total only* to the credit of *Merchandise Sales*, using the date of the last transaction in the series. Read again the directions for posting and taking a trial balance and follow them implicitly. This trial balance should include all items in November.

REVIEW QUESTIONS, EXERCISES 4, 5, AND 6

1. What is a business transaction? 2. Show how each transaction gives rise to the relationship of debtor and creditor. 3. Does that relationship exist in the beginning of a business before there have been any transactions? Explain. 4. Show why there cannot be a debtor without a corresponding creditor. 5. Explain the meaning of the terms debtor and creditor as they are employed in account keeping. 6. State the rule to

determine the debtor and creditor elements in a given transaction. 7. In what class of transactions are persons involved in the entry? 8. In what class are persons not involved? 9. Show why we do not bring persons into all entries. 10. What considerations determine the content and form of an original entry? (An original entry is the first, or journal, entry.)

11. What is an account? 12. What is posting? 13. What plan would you follow in opening accounts in the ledger? 14. What accounts are involved in posting entries of sales transactions? 15. When the sales entries are grouped in the journal, what advantage in posting results from having customers' accounts together in the ledger? 16. If you found it convenient to group other classes of items in the journal, should the accounts to which such items belong be found together in the ledger? 17. What other class of items might be conveniently grouped in the journal as we grouped the sales items? 18. What is the purpose of the trial balance? 19. Give in detail the steps to be taken in posting and securing a trial balance. 20. What is a trial balance of concrete results? 21. How should you proceed to locate an error if your trial balance shows a difference?

Purchase Book

Before proceeding with the transactions of the following month (December) we shall consider several new points.

Turn to page 13 of the journal and write the caption *Merchandise Purchases* at the top of the page. If you saved labor by grouping sales transactions, you can also save labor by grouping purchases. This form is the one employed for sales the last ten days of November. (See form, page 66.) *You must reverse the order, however, when you post.* The persons from whom you buy goods are creditors; *Merchandise Purchases* is a debtor.

Merchandise Discount

Nov. 21 we sold A. J. Ackley a bill of goods on terms of 2% discount for payment in 10 days. What entry was made of the sale to Ackley? He now takes the 2% discount and remits us $313.60 in full settlement. We must credit him for the full amount, $320, but we can debit *Cash* for only the amount received, $313.60. The difference ($6.40) that must be charged back to some account might be regarded as an offset to Merchandise Sales, a means of getting money to carry on the business, or an expense of collecting customers' accounts. At present, however, you may charge *Merchandise Discount* for the discount taken by A. J. Ackley. Study the following transactions:

Jan. 24, 19—. Receive of Boyd & Benton for invoice of the 14th inst., $500, less 2%. The entry for this transaction should be

	24				
	Cash	490			
	Mdse. Discount	10			
	Boyd & Benton			500	
	In settlement of their invoice of 1/14, less 2%.				

Jan. 27. Pay Harding & Hill for inv. of the 17th inst., $360, less 1½%.

Entry:

	27				
	Harding & Hill	360			
	Cash			354	60
	Mdse. Discount			5	40
	For invoice of 1/17, less 1½%.				

A very simple rule to follow is to debit *Merchandise Discount* for *sales discount* and credit the same for *purchase discount* when either is taken. For a fuller discussion of this topic, see page 158.

WHOLESALE SHOE BUSINESS (Continued)

Exercise 7

Transactions in the business of P. A. Morgan for the month of December follow. With sales and purchases grouped under separate heads, continue the journal entries.

December 1, 19—

Receive of A. J. Ackley for invoice of the 21st ult., $320, less 2%.

Make the following payments:

J. E. Dodge, agent, for fire insurance policy, $1500 valuation @ 1%, $15.

The Northcott Truck Co., freight and drayage for November, $23.50.

Benjamin Webster, December rent, $100.

Buy of Walter Eddy & Co., terms cash less 1%, 500 A @ $1.25.

Note. — Hereafter regard all purchases and sales of merchandise as executory transactions; that is, the sale or purchase constitutes one transaction, the settlement another. In a wholesale or manufacturing business, information respecting individual customers and creditors justifies the labor of opening accounts with them, whether or not cash is paid in settlement. Besides, strictly cash transactions in the wholesale trade rarely occur; that is, customers do not come to the place of business with the money and carry away the goods. The entry *Cash* to *Merchandise* is justified only when there is a mutual simultaneous exchange of goods and money. In business, "terms cash" means anywhere from one to thirty days. Do not enter cash receipts or payments unless there is a direct statement that cash is received or paid.

Dec. 2

Make the following sales:

Rulif V. Lawrence, n/10, 10 doz. C @ $36.

Clayton Ensign, 5/10 n/60,

5 doz. B @ $36.

5 doz. C @ $42.

Receive the following checks:

R. S. Kingsley, invoice 11/23, $125.

Wickwire Brothers, invoice 11/23, less 3%, $310.40.

(Combine these remittances in one *Cash* entry.)

Make the following payments:

Ely Abrams, invoice 11/22, less 1¾%.

French Brothers, invoice 11/23, less 2%.

(Consult their accounts for the amounts and combine the payments in one *Cash* entry.)

Dec. 3

Make the following payments:

Wm. Brown $14, F. A. Jones $13, salaries.
Postage, car fares, and petties, $12.
Peckham & Co. for 10 T. egg coal @ $5.50.
P. A. Morgan, personal drawings, $35. (One *Cash* entry.)

Dec. 5

Buy of French Brothers, terms cash, less 3%, 20 doz. C @ $30.
Pay the Northcott Truck Co., freight and drayage, $8.

Dec. 6

Pay David Dunn for invoice of the 26th ult., less 2%. (Consult his account for the amount.)

Buy of Fagan & Kendrick, terms cash, less 1%, 10 doz. D @ $9.

Sell Henry K. Goodrich for delivery one half at date, one half Dec. 20, terms cash on delivery, 20 doz. E @ $7.20.

Pay Tuska & Co. for 1 duplicating machine, $50, and supplies, $7. (Charge the machine to *Office Furniture*, the supplies to *Expense*.)

Dec. 7

Make the following payments:

Ely Abrams, invoice Nov. 7, $200.
Wm. Brown, $14; F. A. Jones, $13, salaries.
Stationery and petties, $13.55.
P. A. Morgan, personal drawings, $25.

Sell Rulif V. Lawrence, n/10, 5 doz. D @ $15.

Dec. 9

Return merchandise to Holbrook & Hayward, 25 C @ $2.50. (Credit *Merchandise Purchases*.)

Receive checks of the following customers:

Frederick Austin, invoice 11/9, $75.
S. E. Rodgers, invoice 11/28, $45.
A. C. Fontaine, invoice 11/28, $100.
John Bennett, invoice 11/28, less 2%, $122.50.
Henry K. Goodrich, invoice 12/6, $72.

Receive of Clayton Ensign to apply on invoice of Nov. 29 the papers shown on next page.

Read these documents carefully. One is a promise to pay money in 30 days; the other, a communication addressed to The Merchants Bank, asking that institution to pay money at once. One is called a "promissory note"; the other, a "check." What names do we give to these things in recording their receipt on our books?

Cincinnati, Ohio, Nov. 29, 19—

Thirty days after date for value received I promise to pay to the order of P. A. Morgan

One Hundred Eighty-three 81/100 Dollars $183.81

at the Merchants Bank of Cincinnati.

No. 415 Due Dec. 29, 191— Clayton Ensign

The Merchants Bank

No. 1560 Cincinnati, Ohio, Dec. 6, 19—

Pay to the order of P. A. Morgan $200.00

Two Hundred no/100 Dollars

Clayton Ensign

Allow Ensign 3% discount (see sale of Nov. 29) on the amount of the debt which his cash remittance discharges. You should not compute discount on the amount remitted; $200 is 97% of the debt canceled by this remittance. Is this sales discount or purchase discount? Should *Merchandise Discount* be debited or credited?

NOTE. — Some business men, in order to save the extra labor involved in the longer calculation, would compute this discount on the amount of the remittance, $200; but Ensign, in this transaction, has a right to demand an allowance of $6.19, and his bookkeeper could be no more profitably employed than in making such calculations. And while conditions might arise to justify the shorter method of computation, the one stated above is employed in this book.

Issue the following checks:

Walter Eddy & Co., invoice 12/1, $625, less 1%.
French Brothers, invoice 12/5, $600, less 3%.
Fagan & Kendrick, invoice 12/6, $90, less 1%.

Is the discount involved in these transactions sales discount or pur-

chase discount? State the rule for debiting and crediting *Merchandise Discount.* Show how we can save time and labor by combining these payments in one entry. Have you been grouping all cash payments? Where? What is credited for cash paid? Where have you grouped cash receipts? Are transactions involving the receipt and payment of cash numerous? Would any advantage result from grouping cash payments in the journal? Explain. Would any advantage result from grouping cash receipts in the journal?

Post all the entries Dec. 1 to 9, inclusive, and take a trial balance. Foot and rule the group of sales items as you did Nov. 30. Foot and rule the group of purchase items as follows:

Merchandise Purchases

19—					
Dec.	1	Walter Eddy & Co., cash, less 1%			
		500 A @ 1.25	625		
	5	French Brothers, cash, less 3%			
		20 doz. C @ 30	600		
	6	Fagan & Kendrick, cash, less 1%			
		10 doz. D @ 9.	90		
		Mdse. Purchases Dr.			1315

This form is given for your guidance only. *Do not copy it.* Since you have been accustomed to the form of journal entry in which debit items are to the left and credit items to the right, you should exercise the utmost care in posting purchases. In this form the debit item stands to the right, the credit items to the left. Post your group of purchases in accordance with the above form.

LABOR-SAVING BOOKS (Continued)

Cash Book

In recording the transactions that follow continue to group the sales and the purchase transactions in the spaces allotted. Although this narrative of transactions has been presented in separate exercises, it comprises a series of unbroken business events, and your record should be continuous. Do not leave blank spaces anywhere between your entries.

Since the plan of grouping sales and purchases in the journal has marked advantages, let us continue the grouping as long as it will effect a saving of labor and not impair the value of the record. Set aside *three pages* for cash transactions (pages 14, 15, and 16 of the journal). At the top of page 14 enter all cash receipts; on the lower half of page 14, all cash payments. You have been doing this in constructing your *Cash* account in the ledger; but the journal record must show under cash received (1) the date, (2) the creditor account, (3) from whom and for what received, and (4) the amount. And the record of cash payments must show (1) the date, (2) the debtor account, (3) to whom and for what paid, and (4) the amount. Above the first group of items write *Cash Received;* above the second group, *Cash Paid.* An outline of your cash record for the transactions of exercises 8 and 9 is given on pages 68 and 69 for your guidance.

WHOLESALE SHOE BUSINESS (Continued)

Exercise 8

Dec. 11

Buy of Ely Abrams, n/10, 30 doz. E @ $4.80.

Two tons of the coal purchased on the 3d inst. have been delivered to Mr. Morgan's residence.

What account was charged with the cost of this coal? Should household expenses of the proprietor be charged to the business? What entry will adjust this matter?

Sell Edward Davis, n/10, 10 doz. E @ $7.20.

Remit Holbrook & Hayward for invoice of the 14th ult., $375. (For form of this entry, see page 69.)

Name the debtor in this transaction. Name the creditor. Give the

Cash Received

Date		Fol.	Accounts Cr.	Particulars				
19— Dec.	13		P. A. Morgan, Capital	Investment	500			
	13		Notes Payable	W. F. Slocum 30 days	500			
	14		Rulif V. Lawrence	Inv. 12/2	360			
	16							
	16							
	17							
	19							
	19							
	20		Cash Dr.				????	
	26		Edward Davis	Inv. 12/11	70	56		
	26		Frederick Austin	" 12/13	120			
	27							
	28							
	30							
	31							
	31		Cash Dr				??????	

rule. Note that economy of time and labor should determine the form of the record, and that this form is much shorter than the one we have been using for this type of transaction.

Buy of David Dunn, terms 30-day note, 50 doz. B @ $24.

Dec. 13

Give David Dunn P. A. Morgan's 30-day note for invoice of the 11th inst., $1200, making the note payable at your local bank.

In the transaction of the 11th, when we purchased these goods, we credited David Dunn. Giving this note does not cancel the debt; but it is accounting practice to keep debts that are evidenced by notes and time drafts under a separate head. So we should transfer this item now from

Cash Paid

Date		Fol.	Accounts Dr.	Particulars				
19— Dec.	11		Holbrook & Hayward	Inv. 11/14	375			
	14		Expense	Brown 14, Jones 13 salaries	27			
	14		Expense	postage, telegrams, petties	8	50		
	16							
	16							
	19							
	20		Cash Cr.				????	
	21		Ely Abrams	Inv. 12/11	144			
	21		Expense	petties	8	50		
	21							
	21							
	23							
	24							
	28							
	28							
	28							
	31							
	31		Cash Cr.				??????	

Dunn's account to *Notes Payable* — debit the former and credit the latter — and write the following explanation: *Gave David Dunn our 30-day note, dated Dec. 11, and payable at* (your nearest bank) *for inv.* 12/11, *$1200. Notes Payable* is credited when you issue your negotiable promise, that is, when you give your note or accept another's draft, and debited when such promise is redeemed. This subject is more fully treated on pages 119 and 120.

Sell Frederick Austin, n/10, 8 doz. D @ $15.

P. A. Morgan makes an additional investment of $500. (For form of this entry, see page 68.)

Name the debtor in this transaction. Name the creditor. What form of entry did we make Nov. 1 when P. A. Morgan made a cash invest-

ment? That entry took four lines, and we have accomplished the same result here in one line. What considerations should determine the form of an entry? Does the form of the entry in any way affect the relationship of the debtor and the creditor involved?

P. A. Morgan gives his 30-day interest-bearing note for $500 to W. F. Slocum, for a loan of that amount in cash. (For form of this entry, see page 68.) When is *Notes Payable* a creditor? When a debtor?

Dec. 14

Receive of Rulif V. Lawrence for invoice of the 2d inst., $360.

Make the following payments:

Wm. Brown, $14; F. A. Jones, $13, salaries.

Postage, telegrams, and petties, $8.50.

Name the debtor. The creditor.

P. A. Morgan takes from stock for his personal use 2 B @ $3. (Credit *Merchandise Stock.*)

Dec. 16

Complete negotiations with Franklin Lord for the purchase of the premises now occupied by the business, for $11000, on the following terms:

Receive credit for unexpired rent, $50.

Give a first mortgage on the premises of $5000.

Pay the balance in cash, $5950.

Procedure

First, make an entry in the journal debiting *Real Estate* and crediting *Franklin Lord, Vendor,* for $11000. Using your own address and the name of your own county, write an explanation of this entry after the following model: *For purchase of business premises, known as No. 345 Main Street, as per deed executed this day and recorded in the office of the clerk of the county of Kings, in Liber 156 of Deeds at page 78.*

Second, make a second journal entry debiting *Franklin Lord, Vendor,* and crediting *Mortgage Payable* for $5000. Substituting your own address and county, explain this entry as follows: *Mortgage of P. A. Morgan to Franklin Lord for $5000, bearing interest at 5% per annum, payable semi-annually, and covering premises known as No. 345 Main St., which was executed this day and recorded in the office of the clerk of the county of Kings in Liber 189 of Mortgages at page 121.*

Third, make an entry in your journal crediting *Expense* and debiting *Franklin Lord, Vendor,* for $50, with an appropriate explanation.

Fourth, make an entry under Cash Payments debiting *Franklin Lord, Vendor,* and crediting *Cash.* Explain this entry by reference to the journal page of the preceding entries. In the folio column place a check

mark (√) opposite each " Franklin Lord, Vendor " item, and do not post these items.

In a mercantile business, personal accounts are usually those of customers or trade creditors. And if a personal account has some other function, it is well to indicate its character by some qualifying word, as " Capital," " Private," " Vendor " (seller), " Vendee " (buyer), " Liquidation " (settlement), " Loan," etc.

Buy of French Brothers, terms 30-day note, 12 doz. C @ $30.

The following invoice represents a purchase of 5 doz. F @ $42.

THE BARNARD SHOE

LOOK FOR THE NAME IN STRAP

CABLE ADDRESS "BARNARD" CHICAGO

THE BARNARD SHOE COMPANY

MANUFACTURERS

180 to 187 ADAMS STREET,
CHICAGO, U. S. A., Dec. 14, 19—

SOLD TO P. A. Morgan
ADDRESS (Your address)

SALESMAN King
SHIPPED BY 20972 C. & N. W.
TERMS Rg
2 per cent 30 days, net 60 days

PAYABLE IN CHICAGO OR NEW YORK EXCHANGE. WE CHARGE EXTRA FOR SINGLE PAIRS

Factory No.	Case No.	Pairs	In Re-ordering give Factory Number	Width	Last	Price	Extension	Total
27442	1–2	12	velvet Cf Butt 26	C	Hippo	3 50	42 00	
27441	1	12	velvet Cf Sm Butt	C	Corker	3 50	42 00	
	1	12	velvet Cf Sm Butt	D	Corker	3 50	42 00	
27440	2	12	penant Cf Blu 20	C	Buster	3 50	42 00	
	2	12	penant Cf Blu 20	D	Buster	3 50	42 00	
		60						210 00

Make the following sales:

George Graber, terms cash, 10 doz. A @ $19.20.
L. L. Vance, terms 30-day note, 15 doz. A @ $19.20.
John Bennett, net 10 days, 10 doz. A @ $19.20.

Pay Walter Eddy & Co. for invoice of 11/16, $625.

Receive the following checks:

Holbrook & Hayward for goods returned the 9th inst., $62.50.
Edward Davis for invoice of the 15th ult., $120.

Dec. 17

Make the following sales:

S. E. Rodgers, n/10, 20 doz. E @ $7.20.
R. S. Kingsley & Co., n/30, 10 doz. B @ $36.

Receive of Rulif V. Lawrence for invoice of the 7th inst., $72.50. Allow him $2.50 on this invoice for imperfections in goods, in accordance with his representations and request. (Debit *Sales* and credit *Rulif V. Lawrence* in the journal.)

Dec. 19

Pay the Bell Telephone Co. for December service, $4.50.

Receive of George Graber for invoice of the 16th inst., $192.

Receive of L. L. Vance his 30-day note, dated Dec. 16, for invoice of that date, $288.

Receive of Rulif V. Lawrence for invoice of 11/22, $225.

Give French Brothers our 30-day note, dated to-day, for invoice of the 16th inst., $360.

Dec. 20

Buy of Ely Abrams, n/10, 40 doz. E @ $4.80.
Sell S. E. Rodgers, n/30, 100 E @ 58 ¢.

Posting

The entries of this exercise have been recorded in five separate groups. In practice it is customary to keep these groups of entries under separate covers, or in separate books. For convenience in designating the different sections of the record, we shall hereafter refer to the several parts as the "journal," "sales book," "purchase book" and "cash book," the cash book to include the two groups of cash items — cash received and cash paid.

If you are encountering any difficulty in getting these items to the ledger so that when the ledger is summarized in the trial balance there is an equality of debits and credits, you should study carefully the following outline. Just as each transaction gives rise to the relationship of debtor

and creditor, so does each group of transactions give rise to such relationship, and present an equality of debit and credit items, as follows:

Journal Form

			(Account) Dr.	5	
			(Account) Cr.		5

Purchase Book Form

			(Accounts) Cr.	3	
				6	
				8	
			(Account) Dr.		17

Sales Book Form

			(Accounts) Dr.	12	
				7	
				9	
			(Account) Cr.		28

Cash Receipts Form

			(Accounts) Cr.	25	
				2	
				6	
				4	
			(Account) Dr.		37

Cash Payments Form

			(Accounts) Dr.	3	
				8	
				10	
			(Account) Cr.		21

Now, if we collect and arrange the debtor and creditor items, we shall have:

DEBTORS	CREDITORS
$ 5.	$ 5.
17.	3.
12.	6.
7.	8.
9.	28.
37.	25.
3.	2.
8.	6.
10.	4.
	21.
$108.	$108.

An Exercise in Mental Posting

Turn to your cash received record, exercise 8. From whom is the value received in these items? Name the creditors. To which side of the ledger and under what captions are these items to be posted? Under what date is each item to be posted? To what page of the ledger? Where is the cash book page to be entered? Where is the ledger page to be entered after the item is posted? What purpose does the paging serve? This is a record of value received by what department of the business? Name the debtor. For what amount? To which side of the ledger, on what page and under what caption is this item to be posted? What date? (In posting totals, always give the date of the last transaction in the series.) What should be done to prevent posting an item twice or omitting it altogether?

Turn to your cash paid record. What department of your business is shown to have given value here? Name the creditor. The amount. To which side of the ledger must this item be carried? Under what caption? What date? What page of the cash book and where entered? What page of the ledger and where entered? These entries indicate value received by what persons and departments of your business? Name the debtors, the dates, and the amount for which each is a debtor. To which side of the ledger and under what captions must these items be posted? How many parts to a date? State again the purpose of the post-mark.

Now turn to the purchase book. Who gave the value in these transactions? Name the creditors, dates, and amounts. On which side of the ledger and under what titles must these items be posted? Where do you enter the page of the purchase book? The ledger page? Why? *Where*

in the ledger do you write the terms? What department of the business received value in each purchase transaction? What is the total value received by this department? What name is given to that which receives value? On which side of the ledger is this total to be posted? What date? In what column and opposite what item should you enter the purchase book page? When? Where do you enter the ledger page?

With your sales book before you, answer the following: Who receives value in a sales transaction? What class name is given to those to whom we sell goods? Name all the debtors in the sales book. Give the dates on which they became debtors, and the amounts involved. To which side of the ledger and under what titles must these items be posted? Where should the terms be entered in the ledger? How do you avoid posting twice or omitting an item? What department of the business gives value in a sale? Name the creditor. Give the amount, the date, the title of the account, and the page of the ledger to which this amount is to be posted. Which side of the ledger? This transfer is made *from* what page? Where is this page to be entered? The transfer is made *to* what page? Where entered?

Turn to the journal. Name the debtors in these entries. The creditors. To which side of the ledger and under what captions are the debtor items posted? The credit items? Should this posting be post-marked? Why?

WHOLESALE SHOE BUSINESS (Concluded)

Exercise 9

Continue the plan of grouping cash items, sales, and purchases. Each entry should be fully explained, or specific reference to supplementary records should be made that will give a full explanation. The December narrative of transactions is concluded in this exercise.

Dec. 21

Pay Ely Abrams for invoice of the 11th inst., $144.
Buy of David Dunn, 2/10 n/30, 100 doz. B @ $24.
Make the following payments:
Wm. Brown, $15; F. A. Jones, $15, salaries.
Petty disbursements, $8.50.
P. A. Morgan, personal drawings, $40.
Sell Richard Grainger, terms cash, 10 doz. E @ $7.

Dec. 23

Pay the "Boot & Shoe Recorder" in settlement of their bill, 12/16, for advertising, $35.50.

Sell A. J. Ackley, terms n/30, 3 doz. A @ $19.20; 4 doz. B @ $24.

Return to David Dunn 5 doz. B @ $24, goods are not up to sample.
Buy of Fagan & Kendrick, 2/10 n/30, 10 doz. D @ 9.

Dec. 24

Sell John E. Steen, terms 15-day note, 15 doz. E @ $7.20.
Sell Isidore Isaacs, 2/10 n/30, 4 doz. F @ $48.
Pay for gifts to employees, $20.

Should this item be charged to the business (Expense) or is it a matter that belongs to the proprietor personally? Good accounting carefully distinguishes between business and personal expenses. If you think the business is justified in rewarding its employees in order to get more loyal service, charge the item to *Expense;* otherwise, charge it to Mr. Morgan's personal account.

Dec. 26

Receive of John E. Steen the following note for invoice of the 24th inst.

No. 435 Kansas City, Mo., Dec. 24, 19—

Thirty days after date I promise to pay to

the order of John E. Steen $108.00

One Hundred Eight 00/100 Dollars

Value received without interest, and payable at the First National Bank of Kansas City.

V. W. Campbell.

Mr. Steen has written on the back of this note:

Pay to the order of P. A. Morgan, John E. Steen

Such a writing is called an "indorsement." The note is made payable to John E. Steen, and this indorsement transfers it to P. A. Morgan. What is the accounting name for this paper from our standpoint? What is the debtor? Name the creditor. State the rule involved. If P. A. Morgan wished to pass this note on to David Dunn, he could do so by writing underneath John E. Steen's indorsement, *Pay to the order of David Dunn, P. A. Morgan.* Because of the way notes, checks, and drafts may be transferred from one person to another, they are said to be *negotiable.*

Receive the following checks:

Edward Davis for invoice of 12/11, $70.56.
Frederick Austin for invoice of 12/13, $120.

NOTE. — Refer to the account of Edward Davis. Evidently he has taken 2% discount on this invoice. Mr. Morgan will communicate with him with reference to the matter. In the meantime give him credit for the amount of his remittance only.

Henry K. Goodrich has asked for the delivery of the balance of his order of Dec. 6, 10 doz. E @ $7.20, and the shipment has been made.

Dec. 27

Sell Wickwire Brothers, terms cash, 7½ doz. A @ $18.96.

Receive of John Bennett, for invoice of 12/16, $188.16.

Mr. Morgan explains that he quoted Mr. Bennett 2% discount in November and that, although these goods were invoiced at net 10 days, he will allow the discount. Credit Mr. Bennett in the cash record for the amount of his remittance, and adjust the discount by means of a journal entry. Is this a purchase discount or a sales discount? Is *Merchandise Discount* a debtor or a creditor?

Sell R. S. Kingsley & Co., terms 2/10 n/30, 10 doz. C @ $42.

Dec. 28

Receive of Isidore Isaacs for his note of 12/28, due to-day, $252.

Mr. Morgan will cancel this note and return it to Mr. Isaacs. Under what title has this note been carried on your books? Since the note now passes out of your possession, what must be credited? A person is credited when he gives us a note. *He must not be credited again when he pays the note.*

Make the following payments:

Wm. Brown, $15; F. A. Jones, $15, salaries.
Office supplies and petties, $7.
P. A. Morgan, personal drawings, $65.

Dec. 30

Receive of S. E. Rodgers for invoice of 12/17, $144.

Dec. 31

Sell Rulif V. Lawrence, net cash, 20 doz. B @ $33.60.

Pay the United Gas & Electric Co. for lighting service to Dec. 28, $4.65.

SALE OF WHOLESALE SHOE BUSINESS

EXERCISE 10

Mr. Morgan has sold his business to David Dunn, the transfer to take effect at the close of the present business period, Dec. 31. Mr. Dunn agrees to take over at cost the following: stock of goods, real estate, office

furniture, not including the signboard, and 5 tons of unused coal. He agrees to assume the mortgage of $5000 in favor of Franklin Lord, to give his 30-day note with interest at 6% per annum for $2000, and, after taking credit for the amount now due him on book account, to pay the balance in cash. The interest accrued on the mortgage, the discount allowance to which Mr. Morgan would ordinarily be entitled for the prepayment of his note, as well as the merchandise discount on Mr. Dunn's invoice of Dec. 21, are to be disregarded. The goods now in stock are found, by actual inventory and appraisement, to have cost $3956.80. This transaction calls for the following entries:

DECEMBER, 19—

	31				
	David Dunn, Vendee	15509	30		
	Mdse. Stock, Sched. A			3956	80
	Real Estate, Deed 12/31, 19—			11000	
	Office Furniture, Sched. B			525	
	Expense, 5 T. coal @ $5.50			27	50
	For assets taken over by David Dunn in accordance with the terms of an agreement by and between P. A. Morgan and David Dunn of to-day's date.				
	31				
	Mortgage Payable	5000			
	P. A. Morgan to Franklin Lord, dated Dec. 16, 19—, $5000				
	Notes Payable	1200			
	Note of Dec. 13 at 30 days favor David Dunn, $1200				
	David Dunn	2280			
	On book account				
	Notes Receivable	2000			
	D. Dunn's 30-day note with int. 6% per annum, $2000				
√	Cash C. B. page 1	5029	30		
	David Dunn, Vendee			15509	30
	David Dunn assumes and agrees to pay the mortgage of $5000, covering the premises known as 345 Main Street, cancels our note of Dec. 13 in his favor for $1200 and our indebtedness to him on book account of $2280, gives us his 30-day interest-bearing note of $2000 and cash $5029.30, being in consideration of an agreement between P. A. Morgan and David Dunn of to-day's date.				

Make an entry in the cash book for the cash received; place a check mark (√) in the folio column and do not post the item, as David Dunn, Vendee, receives full credit in the journal entry. Also, check the cash item in your journal entry and do not post it, as cash will be charged in the cash book.

Post all entries to date and take a trial balance of differences dated Dec. 31, 19—.

The Cash Book

That time and labor are saved by grouping the cash items has already been demonstrated. But the cash book has another and a more important function. Owing to the frequency with which the result of the cash record and actual count, or inventory, of cash must be compared as a check upon errors in making change, possible theft, etc., the convenience of a separate record of cash receipts and disbursements in parallel columns is at once apparent. If money is handled by persons other than the proprietor, it is imperative that the record and the count be brought into daily agreement. The difference, of course, between cash received and cash paid is the amount we *should have* on hand. In calculating the amount of cash that we should have on hand, we must, of course, include the amount on hand at the beginning.

Consult the form of cash book, pages 80 and 81, and keep your cash record of the following exercise in such a way as to show the amount of cash we should have on hand Jan. 31, without posting cash items to the ledger.

P. A. MORGAN'S BUSINESS, LIQUIDATED

Exercise 11

The following transactions bring the business of P. A. Morgan to a conclusion. Continue the entries as heretofore, grouping the cash items and journalizing all transactions not involving cash.

Jan. 2, 19—

Make the following payments:

Fagan & Kendrick, for invoice of 12/23, $90, less 2 %, $88.20.
Barnard Shoe Co., for invoice of 12/14, $210, less 2 %, $205.90.
Ely Abrams, for invoice of 12/20, $192.
Northcott Truck Co., December freight and drayage bill, $21.80.
Wm. Brown, $5; F. A. Jones, $5, two days' wages.
S. A. Sharpe, legal services, $40.

Charge Fagan & Kendrick and the Barnard Shoe Co. respectively in the journal for the amount of the discount taken on these invoices to balance

Cash Received

Date		Fol.	Accounts Cr.	Particulars	Items		Total	
19—								
Jan.	1		Balance	Cash on hand			5955	57
	3		Isidore Isaacs	Inv. 12/24, 2% J. 7	188	16		
	4		Richard Grainger	Inv. 11/21 12/21	190			
	4							
	4							
	4							
	7							
	7							
	7							
	15							
	16							
	19							
	23							
	23							
	23							
	30							
	30							
	31		Cash Dr.				5312	57
							11268	14
19—								
Feb.	1		Bal. brought forward				9843	09

their accounts. Is this a purchase discount or a sales discount? Is *Merchandise Discount* a debtor or a creditor for this discount? Mr. Morgan has settled the account of Edward Davis by allowing him the discount on his purchase of Dec. 11. Adjust this by means of a journal entry.

Jan. 3

Receive of Isidore Isaacs for invoice of 12/24, less 2 %, $188.16.

Credit Mr. Isaacs in the cash record and dispose of the discount through a journal entry.

Jan. 4

Receive the following checks:

Richard Grainger for invoices 11/21 and 12/21, $190.
Rulif V. Lawrence in full of account, $672.
Wickwire Brothers for invoice 12/27, $142.20.
Henry K. Goodrich for invoice 12/26, $72.

Cash Paid

Date		Fol.	Accounts Dr.	Particulars	Items		Total	
19—								
Jan.	2		Fagan & Kendrick	Inv. 11/23, less 2% J.	88	20		
	2		Barnard Shoe Co.	" 12/24, less 2% J. 7	205	80		
	2							
	2							
	2							
	2							
	12							
	12							
	18							
	30							
	31		Cash Cr.				1425	05
	31		*Bal. carried forward*				9843	09
							11268	14

Jan. 7

Receive the following checks:

R. S. Kingsley & Co. for invoice 12/27, less 2 %, $411.60.

Clayton Ensign, $566.01, to be applied as follows:

Invoice 12/2, less 2 %, $382.20.

C. Ensign's note of Nov. 29, due 12/29, $183.81.

Jan. 12

Pay W. F. Slocum in settlement of his note and interest due to-day.

Face of note, $500. Interest accrued 30 days, 6 %, $2.50.

Interest is the right to the use of money, — a right that is bought and sold just as other rights are bought and sold. When you sell the right to use your money, credit that which you sell — *Interest;* when you buy the right to use another's money, debit that which you buy — *Interest.* Briefly, debit *Interest* when it costs value, and credit *Interest* when it earns value.

In this transaction *Interest* has cost $2.50, and is, therefore, a debtor item for that amount.

Jan. 15

Receive of L. L. Vance for his note of 12/16 due to-day, $288.

Jan. 16

Receive of R. S. Kingsley & Co. for invoice 12/17, $360.

Jan. 18

Pay French Brothers for their note due to-day, $360.

French Brothers were debited when you gave them this note; do not debit them again.

Jan. 19

Receive of S. E. Rodgers for invoice of 12/20, $58.

Jan. 23

Receive the following checks:

A. J. Ackley for invoice of 12/23, $153.60.

John E. Steen, $201, to be applied as follows:

Note of Dec. 24 due to-day, $108.

Invoice of Nov. 25, $93.

Jan. 30

Pay postage and petties, $4.75.

Receive check of David Dunn $2010 to be applied as follows:

Note of Dec. 31, due, $2000.

Interest 30 days, 6 %, $10.

Has Interest cost or earned something? Is Interest a debtor or a creditor?

Closing the Cash Book

If you have completed the January entries, you should now sum up the cash record, state the conclusion to which this record of receipts and payments leads, and carry such conclusion forward to Feb. 1. (See form, pages 80 and 81.)

The title " Cash " includes not only currency (paper and metal money), but everything that passes current as money in the course of trade. Checks, bank drafts, postal and express money orders are recorded as cash, because they can, ordinarily, be converted into money immediately, if the holder so desires.

An account is a depository of value. The Cash account represents on your books the custodian of certain value; it is charged with the value it

receives and is credited with the value it yields. The Cash account of exercise 11 has received $11268.14 and given back $1425.05. It should accordingly possess the difference between these amounts, or $9843.09. This result, however, is always verified by counting the cash on hand and determining the amount on deposit, assuming that a bank account is kept.

An account is a record of events which is summarized and brought to a conclusion periodically. The period of time covered by this account ends Jan. 31. Closing the account is merely divesting it of its holdings. The period ending Jan. 31 gives to the period beginning Feb. 1, $9843.09. The period giving the value (January) is a creditor; the period receiving the value (February), a debtor. The amount carried forward, being the difference between the two sides, is called the " Balance," and is sometimes written in the old account in red, although this is not imperative. Closing entries are, in principle, like all other entries — transfers of value from one account, or one period of time, to another. Always debit that which receives, and credit that which gives, value. The cash book closing, exercise 11, expressed in the form of a journal entry should be

	JAN. 31				
	Cash Account (Feb. 1)	9843	09		
	Cash Account			9843	09
	Cash on hand carried forward				

Do not journalize this closing, however. Post the cash book and journal, and take a trial balance of differences dated Jan. 31. This trial balance includes the results of all transactions since Nov. 1.

Statement

If on Jan. 31 Mr. Morgan had called for a statement showing the outcome of his business venture, and the various factors involved in that outcome, such statement might have taken the form shown on pages 84 and 85.

P. A. MORGAN'S BUSINESS, BOOKS CLOSED

EXERCISE 12

You were told in the early pages of this book that the business man expects the things he owns to render pecuniary service; that such expectation depends for its realization upon the value outcome of the things to which such ownership relates; and that such value outcome can be determined if we debit that person or department of the business that receives value, and credit that person or department that gives value. We have

BUSINESS AND FINANCIAL STATEMENT

For the Period from Nov. 1 to Jan. 31, 19—

Trading Account

		Purchases for the period		9478	50			Sales for the period[1]		7246	80
		Less returned purchases		182	50			Less returned sales		77	50
				9296				Sales, net		7169	30
		Add freight & drayage		53	30						
				9349	30						
		Deduct stock taken over by David Dunn[2]		3956	80						
		Cost of goods sold		5392	50						
		Balance, gross profit, carried to Profit & Loss		1776	80						
				7169	30					7169	30

Profit & Loss Account

		Expense		651	45			Trading Account		1776	80
		Depreciation of Office Furniture		15				Interest		7	50
		P. A. Morgan, net profit, c/d		1125	09			Mdse. Discount		7	24
				1791	54					1791	54

P. A. Morgan

		Drawings		282				Investment		8500	
		Capital c/d		9843	09			"		500	
								Profit brought down		1125	09
				10125	09					10125	09

[1] Stock appropriated by the proprietor for personal use is included with Sales.
[2] In a going business this item is the inventory at date.

BALANCE SHEET

		Cash		9843	09			P. A. Morgan Capital		9843	09

followed this rule in the business of P. A. Morgan, and it has brought us to the results shown in the trial balance of Jan. 31, as follows:

TRIAL BALANCE, JANUARY 31, 19—

		P. A. Morgan, Capital			9000	
		P. A. Morgan, Private	282			
		Cash	9843	09		
		Interest			7	50
		Office Furniture	15			
		Mdse. Stock			3962	80
		Mdse. Purchases	9296			
		Mdse. Sales			7163	30
		Freight & Drayage	53	30		
		Mdse. Discount			7	24
		Expense	651	45		
			20140	84	20140	84

While we have followed the rule of debiting that which received, and crediting that which gave, value, it is apparent from the above trial balance that *Merchandise Stock* and *Merchandise Sales* must have received value of which we have, as yet, made no record. Transfers of value have been made from time to time as goods were placed in stock, and then taken from stock and sold, which we must now record. And in making a record of these transfers, we are moving step by step toward the conclusion to which all business leads — namely, profit or loss.

Profit in a trading business is the difference between the cost price and selling price of goods sold. The *Sales* account shows the selling price of goods sold, and the following procedure will determine the cost price of goods sold.

The cost price of goods bought to be sold is made up of two items: the invoice price, which is recorded in the *Merchandise Purchases* account, and the cost of delivery, which is recorded in the *Freight & Dray-*

age account. Accordingly, the first step in marshaling the factors of cost is to transfer *Freight & Drayage* to *Merchandise Purchases*. The following entry will effect this transfer:

	31				
	Mdse. Purchases	53	30		
	Freight & Drayage			53	30
	For balance transferred				

Post each entry as made.

It should be evident that the value of the goods purchased is increased by the cost of delivery; in other words, the goods have received the value of the services rendered in transporting them. We have, then, in this entry debited that which received the value and credited that which gave the value. Copy this entry in your journal and post it.

The next entry should record the transfer of value from *Merchandise Purchases* to *Merchandise Stock*, for the value of goods placed in stock, as follows:

	31				
	Mdse. Stock	9349	30		
	Mdse. Purchases			9349	30
	For cost of goods placed in stock				

What became of the goods placed in stock? The stock remaining Dec. 31 was transferred in lump to David Dunn, but this transfer has been recorded. Presumably all the goods placed in stock, except those taken over by David Dunn, were delivered to the customers of the business by salesmen; and since *Merchandise Sales* was credited with the value given by the sales department, it must now be debited with the value of the goods received from *Merchandise Stock*, being the cost of goods sold, as follows:

	31				
	Mdse. Sales	5386	50		
	Mdse. Stock			5386	50
	Cost of goods sold, charged to Sales				

These three entries have eliminated three items of your trial balance of Jan. 31, and your ledger now stands as follows:

		P. A. Morgan, Capital			9000		
		P. A. Morgan, Private	282				
		Cash	9843	09			
		Interest			7	50	
		Office Furniture	15				
		Mdse. Sales			1776	80	
		Mdse. Discount			7	24	
		Expense	651	45			
			10791	54	10791	54	

Your attention is again called to the fundamental principle underlying this perpetual equality of debits and credits; namely, the simple fact of ownership. Ownership, of course, decreases as the value of the thing owned decreases. The item of $15, opposite *Office Furniture*, represents the signboard which had value and was owned while the business continued; but, since it no longer serves the purpose for which it was acquired, we may regard it as having no value, and therefore no longer owned. The same thing may be said of the *Expense* item. The various things, tangible and intangible—stationery, office supplies, postage, rent, services, etc.—which *Expense* represents, *were* things owned; but the value of these things has been absorbed by the business. The credit items under *Interest*, *Merchandise Sales*, and *Merchandise Discount* represent the gross earnings of the business, or the increase in ownership. So there has been both increases and decreases in ownership, and if we take the difference between the items representing an increase and those representing a decrease, we shall arrive at a *net* result.

Values absorbed, or things consumed in running a business are always represented by debit items and are called "losses." Items representing an increase in the proprietor's worth are always credit items and are called "profits." The difference between these two factors is *net* profit or loss.

The bookkeeper's method of making this deduction is shown in the following entries:

		31					
		Profit & Loss	666	45			
		Office Furniture			15		
		Expense			651	45	
		Balances transferred					

		31				
		Mdse. Sales	1776	80		
		Interest	7	50		
		Mdse. Discount	7	24		
		Profit & Loss			1791	54
		Balances transferred				

Copy these entries in your journal and post them, and your ledger will then stand:

		P. A. Morgan, Capital			9000	
		P. A. Morgan, Private	282			
		Cash	9843	09		
		Profit & Loss			1125	09
			10125	09	10125	09

We find that the business has earned a profit of $1125.09, but of this amount Mr. Morgan has withdrawn $282, which, of course, reduces the profit to his credit and effects a corresponding reduction in ownership. This reduction is accomplished by means of the following entry, which copy in your journal and post:

		31				
		Profit & Loss	1125	09		
		P. A. Morgan, Private			1125	09
		Balance transferred				

And we have, finally:

BALANCE SHEET

		Cash		9843	09			P. A. Morgan, Investment		9000	
								P. A. Morgan, Profit		843	09
				9843	09					9843	09

The process by which the various factors of cost and production — the expenses and earnings of the business — are assembled and the *Profit & Loss* account constructed is called " closing the ledger." Not all accounts enter into a calculation of profit or loss. If the whole or any part of the value lodged in an account remains intact as an asset, the account is brought to a conclusion, and the value of the asset restated underneath the rulings, or under a new heading. The cash account closing, pages 80 and 81, illustrates this procedure. In the business of P. A. Morgan just concluded we disposed of all assets except cash and settled all liabilities before closing the ledger. If we had closed the ledger Dec. 31, prior to the sale of stock, office furniture, etc., to David Dunn, the merchandise stock account would have been closed as follows:

MERCHANDISE STOCK

Dec.	31	Purchases	3	9349	30	Dec.	14		7	6	
							31	Inventory	√	3956	80
							31	Sales acct.	3	5386	50
				9349	30					9349	30
19— Jan.	1	Inventory	√	3956	80						

This account became the depository of value to the amount of $9349.30, which was transferred from *Merchandise Purchases*, being the cost of goods delivered and placed in stock. It accounts for this value in its exhibit of $3956.80 of goods on hand Dec. 31, to be passed to the January account. Six dollars of this value had been previously taken out by the proprietor, and the balance of $5386.50, being the cost of goods sold, is charged to the *Merchandise Sales* account. It was made a debtor for what it received and is now made a creditor for what it has given back. Emphasis is given to this fact by stating the footings and underscoring them with signs of equality, and the account is said to be " closed."

In this procedure, it may be repeated, we have followed the same rule of debiting that which receives, and crediting that which gives, value. *Merchandise Stock* received value from *Purchases*, and gave value (1) to the proprietor, (2) to the January account and (3) to the *Sales* account.

In closing an account involving an asset item, the procedure is always the same; namely, *debit the new account and credit the old.* In closing an account involving a liability item we reverse this procedure. If we had closed the ledger of P. A. Morgan Dec. 31, before the December freight bills had been paid, in closing *Freight & Drayage* we should have proceeded as follows:

Freight and Drayage

19—						19—						
Dec.	1		4	23	50	Dec.	31	Purchases acct.	3	53	30
	5		5	8							
	31	January acct.	√	21	80						
				53	30					53	30
						19—					
						Jan.	1	December acct.	√	21	80

Of course, this $21.80 was owing the transportation company, and would properly stand to the credit of its account. This expedient of bringing current liabilities down to the credit of the account to which the item has been charged, saves the trouble of opening an account with the person to whom the money is owed. But the expedient is in keeping with the same rule we have followed in making all entries. This debt was contracted in December and will be paid in January. If January pays December's debt, the former is giving value to the latter. Hence, we credit the *January* account and debit the *December* account. In closing an account involving a liability item, *debit the old account and credit the new* for the amount of the liability. This expedient, however, is not practicable where there are many items of this character.

TRADING ACCOUNTS

Buying goods and selling goods, in each case, calls for the exercise of different kinds of ability. The services of a competent buyer might be wholly or partially nullified by the work of incompetent salesmen; on the other hand, efficient salesmen might be handicapped by incompetent buyers. It is, therefore, essentially the province of good accountkeeping to record the incoming and outgoing of values so as to reflect the services, good and bad, of different classes of employees. Furthermore, goods should be placed in stock at *cost*, and so recorded; and there are usually several steps in the process of determining cost. The cost of goods at the seller's place is not the cost at the buyer's place; the cost of transportation, which in some cases is the larger factor, must be included. Allowances and returns must also be considered in determining cost. Again, goods are bought at one price and sold at another, and a record of sales also involves returns and allowances.

Manifestly the various functions of the trading department should be recorded separately. Trading activities comprise three main divisions: *Purchases*, *Stock of Goods* (merchandise stock), and *Sales;* and three accounts should be operated to correspond to these divisions. After " freight-in " has been charged to *Purchases*, and return purchases credited to this account, the result should be transferred to *Stock of Goods*.

The value of goods placed in stock passes at closing time (1) to the future account-period (the inventory of goods in stock), and (2) to the *Sales* account (the cost of goods sold). The *Sales* account should be charged at closing time with " freight-out," returns, allowances, etc. This account will then show the cost and selling price of goods sold, and will lead to gross profit.

The student, however, will frequently encounter the practice of combining stock, purchases, sales, freight and drayage, returns and allowances under one head called " Merchandise." The result in profit or loss will, of course, be the same whether the various trading activities are recorded separately in the ledger and assembled when the ledger is closed, or whether such items are grouped in one account when the books are posted. But if the proprietor is a prudent man, he wants his books to show not only results, but the sources from which those results are obtained. Market conditions, for instance, may require dealers in commodities to sell goods at many different rates of profit. The seller, however, should know what

average rate per cent of profit his sales are yielding. If the margin is insufficient to meet expenses, depreciations, and incidental losses, prices must be raised or expenses reduced. If competitors are underselling, prices must be lowered. The matter of pricing goods is much too important to be adjusted without full knowledge of all the circumstances involved.

A merchant, particularly when liberal credit is offered, is prone to buy more than his business justifies. The stock a dealer carries should always have a definite relation to the amount of business done by him. Unless the stock is turned over periodically, too much money is tied up in goods, so that interest on capital and losses from depreciation will quickly wipe out the earnings of the business. Judicious buying is possible only when a separate record of past experience in that department is available. These and other considerations more than justify the extra cost of exhibiting trading activities in detail.

RETAIL COAL BUSINESS

Exercise 13

The following exercise illustrates two methods of recording stock purchases, and sales. Separate accounts are to be kept for the coal department, while the purchases, sales, and stock of hay and feed are recorded in one account, called "Hay & Feed." Study the two methods and be prepared, when the exercise is finished, to discuss their respective merits.

Using cash book, sales book, and purchase book, a journal, and a ledger, record the following transactions. Use rulings employed in the preceding exercises. In opening the ledger, arrange the accounts in related groups. The proprietor's accounts (capital and private) should appear first. The record of things with which the business is carried on, such as *Cash*, *Real Estate*, *Office Furniture*, and the like, may follow. Arrange the trading accounts — *Stock of Coal*, *Coal Purchases*, *Coal Sales*, *Hay & Feed* — next. The expense accounts comprise another group, which may be followed by the *Profit & Loss* account. Open the customers' and the trade creditors' accounts last in separate groups and on separate pages. Give each account ten lines of space. No cash account, however, need be kept in the ledger in this exercise.

Feb. 15, 19—

William Kingsley began a retail coal business with a cash investment of $6977.60.

Lease offices and coal pockets of McEvoy & Sons, and pay rent, in advance, to March 15, in cash, $100.

Buy of McEvoy & Sons, on account, quantity of coal in pockets, inventoried at 50 T. chestnut, 75 T. stove, and 10 T. egg coal @ $5.40.

NOTE. — This is not a purchase in the usual sense. Charge *Stock of Coal.*

Pay Ernest Selkirk, cash to repair and adjust weighing scales, $12.50.
Pay Ed. Norton, cash for team of dray horses, $425.
Pay W. F. Suiter, cash for set of double harness, halters, etc., $65.

NOTE. — Classify expenses in this business as "Delivery," "Office," and "General." Distinguish between things that are consumed in one use and things of longer life. The latter are insured and should be carried in some property account.

Pay the Whitney Wagon Co., cash for two delivery wagons, $95.
Pay John Mitchell, agent, premium on insurance policy, $2500, at ½ %, in cash.

Feb. 16

Buy of the Lehigh Coal Co., 1 car egg, 28.18 T., 1 car stove, 30.19 T., shipped on the 14th inst., terms 10 days. (Charge *Coal Purchases.*)

PRICE LIST

	Nut		Egg		Stove		In Bags		Less than 5-ton Lots	
Buying price (f.o.b. mines)	3	70	3	50	3	50				
Selling price (delivered)	7		7		7		7	25	7	25

NOTE. — In some localities coal is bought at wholesale by the long, or gross, ton of 2240 lb. and sold at retail by the short, or net, ton of 2000 lb. In other places the short ton weight is used both in the wholesale and the retail trades. Cars are weighed after loading, and the weight in tons and hundredweight (20 cwt. = 1 T.) is shown on the invoice and freight bill. The two denominations are separated with the decimal point, but the fraction should be read as *twentieths* and not as *tenths* or *hundredths.* To decimalize hundredweight, divide by 20, thus: 1 cwt. = .05 T.; 10 cwt., .5 T.; 19 cwt., .95 T. In weighing coal in carload lots, fractions of a hundredweight are disregarded. *All coal weight in this exercise should be read as tons and hundredweight.*

Pay Edward McGinn cash for team of horses, one double harness, and blankets, $435.
Pay the Interstate Railroad Co. cash for freight bill, 2 cars coal, 59.17 T. @ $2.40. (Charge inward freight on coal to *Coal Purchases.*)
The Municipal Telephone Co. has installed a telephone for the use of the business. Pay service to March 1, $4.50 in cash.

NOTE. — Hereafter all payments will be made in cash, unless otherwise stated.

Feb. 17

Pay Milton Webster for stationery and office supplies, $18.50.

Make the following sales, terms cash:

Mrs. Jane Moore, Grove St., 5 T. stove.
J. W. Brower, Oak St., 5 T. nut, 5 T. egg.
Bert Wilson, Endicott Apartment, 10 T. nut in bags.
Board of Education, High School, 20 T. egg.

NOTE. — "Terms cash" does not mean that cash has been received. No entry should be made for cash received or paid unless there is a direct statement to that effect. All sales will be made "terms cash" unless otherwise stated.

Feb. 18

Pay George Loeser's bill of the 15th inst. for horse feed, $15.65. (Charge *Delivery Expense.*)

Buy of John M. Reuter & Co., terms cash, 1 car #1 choice timothy hay, 182 bales, weighing 21458 lb. @ $23.50 a ton. This hay is bought for the use of the business and for sale. (Charge *Hay & Feed* account in the journal. See note above.)

Receive the following checks for sales of the 17th inst.: J. W. Brower, Bert Wilson.

Feb. 19

Make the following sales:

Malcolm Andrews, 15 T. stove.
John Vopelak, 3 T. nut.
O. S. Davidson, 10 T. nut.

Mr. Kingsley appropriates at cost price 10 bales hay for horse feed, weight 1385 lb. Which account receives value? Gives value?

Feb. 20

Pay postage and petty expenses, $3.75.

Pay McEvoy & Son for account of the 15th inst., $729.

Buy of the Lehigh Coal Co. 2 cars chestnut, weighing 43.14 and 44.18 T., respectively, terms 10 days.

Pay wages of John Stuber $13.50, E. Shacher $15.

Pay Wm. Jackson, bookkeeper, $13.

Feb. 22

Make the following sales:

H. Goldschmitt, 10 T. nut.
Wm. Kahn, 5 T. nut, 5 T. stove.

Mrs. Henry Carroll, 3 T. nut.
Municipal Lighting Co., 25 T. egg.
T. Sullivan, 1 T. nut, in bags.

Receive checks as follows for sales of 19th inst.: Malcolm Andrews, John Vopelak, O. S. Davidson.

Feb 23.

Send Chicago draft to John M. Reuter & Co. for invoice of the 18th inst. (This draft will be bought at the local bank. Treat it as cash.)

Feb. 24

Sell Edward McGinn 30 bales hay, weight 4189 lb., @ $1.65 a C. (Credit *Hay & Feed.*)

Remit New York draft to the Lehigh Coal Co. for invoice of the 16th inst.

Pay the Interstate Railroad Co. freight on 2 cars coal, 88.12 T. @ $2.40. (See transaction of 16th inst.)

Buy of John M. Reuter & Co., 1 car clipped white oats, test 38 lb., net weight 56000 lb., 1750 bu. @ 56½¢, terms documentary draft at sight. Freight 19¢ per C. Pay freight and sight draft in cash.

Make the following sales:

R. M. Brownlee, 5 T. nut.
R. L. Burton, 10 T. nut, 10 T. stove.
Mrs. Mary Jennings, 2 T. nut in bags.
Lars Anderson, 7 T. egg.

Feb. 25

Receive cash and checks as follows for sales of 22d inst.:
H. Goldschmitt, Mrs. Henry Carroll, Wm. Kahn, T. Sullivan.

Feb. 27

Pay wages:
John Stuber, $13.50; E. Schacher, $15, Gustav Olsen, $7.50.
Sell James Andrews 10 bags oats @ $1.65. (1 bag weighs 70 lb.)
Mr. Kingsley appropriates 2000 lb. oats for horse feed, at cost.
Pay Hendrickson & Soper horseshoeing bill, $3.50.
Receive cash and checks for sales of 24th inst.:
Lars Anderson, R. L. Burton, Mrs. Mary Jennings.

Feb. 28

Pay Milton Webster for account books, $12.55.
Make the following sales:

Muller & Miller, 10 T. egg.
Whittaker & Co., 8 T. stove.
Frank Bernas, 5 T. nut in bags.

Receive cash and checks as follows:

Municipal Lighting Co., account of 22d inst.
Frank Bernas, acct. 28th inst.
Whittaker & Co., acct. 28th inst.

Buy of The Middlestates Coal Co. 2 cars stove coal, weighing, respectively, 42.7 and 44.9 T., terms cash.

Pay the Interstate Railroad Co. freight on 2 cars coal, 86.16 @ $2.40.

Pay the Standard Typewriter Co. for typewriter, $100.

Pay petty expenses, $8.75.

Post and take a trial balance. Prepare a trading account, profit and loss account, and balance sheet, and close the ledger.

Inventories:

Stock of coal, $1099.40.
Hay and feed stock, $1226.
Horse feed unconsumed, $35.
Prepaid insurance, $12. Unexpired rent, $50.
All other assets at book value.

CLOSING THE LEDGER

Procedure

Journalize the closing entries in the following order:

1. Carry forward to March the coal, and hay and feed inventories:

Stock of Coal } March Acct.
Hay and Feed }
Stock of Coal
Hay and Feed

Inventories carried to March.

2. Carry forward the unconsumed items charged to the expense accounts. You will in each case credit the February account and debit the March account for the value February passes to March; therefore, post the credit items to the old accounts and rule them off. Post the debit items underneath the rulings after the old accounts are closed. Master this procedure, as all asset inventories are disposed of in the same way, when an account is closed, and for the same reason.

3. Credit *Stock of Coal* and charge *Coal Sales* with the cost of coal sold.

4. Transfer the balances of *Coal Sales* and *Hay & Feed* to *Profit & Loss*.

5. Transfer the balances of expense accounts to *Profit & Loss* and rule off the accounts.

6. Transfer the balance of *Profit & Loss* to William Kingsley's private account. Foot and rule the *Profit & Loss* account.

7. Transfer the balance of the *Private Account* to the *Capital Account*, and close the latter account. Foot and rule all accounts that balance.

Trading Account

		Coal purchases for the period		xxx	xx			Sales (coal) for the period		xxxx	xx
		Inward freight		xxx	xx						
				xxxx	xx						
		Deduct inventory 2/28		xxxx	xx						
		Cost of coal sold		xxxx	xx						
		Balance carried down		xxx	xx						
				xxxx						xxxx	xx
		Balance, gross profit, carried to Profit & Loss account		xxx	xx			Balance bro't down		xxx	xx
								Hay & Feed, gross profit		xx	xx
				xxx	xx					xxx	xx

The *Trading* account is sometimes opened and operated in the ledger. In this exercise you may set up the *Trading* account on a separate sheet of ledger paper.

Questions

1. What is the cost of coal bought? 2. What is the cost of coal unsold. 3. What is the cost of coal sold? 4. What is the gross profit from coal sales? 5. What is the gross profit per cent based on the cost price? 6. What is the gross profit per cent based on the selling price? 7. Answer these same questions with reference to hay and feed. 8. What accounts in your ledger answer the first four questions with reference to coal? 9. Does your ledger answer these questions with reference to hay and feed? 10. How should the hay and feed transactions be recorded to show these results? 11. Are these results of sufficient importance to justify the extra labor involved? Show why.

Practice Exercises

The work of the following exercises is to be done on loose journal and ledger paper.

1. Peter J. Hensler, a hardware dealer, buys for cash, Feb. 4, 19—, 15 kegs 4d nails @ $2.30 per keg. Feb. 7 he sells for cash 5 kegs @ $3.25; Feb. 9, 4 kegs @ $3.25. (*a*) What is the cost of the nails unsold? (*b*) What is the cost of the nails sold? (*c*) What profit results from the nails sold, provided incidental expenses, which are paid in cash Feb. 8, are $4.25? The bookkeeper's method of showing a complete accounting of these transactions follows.

PETER J. HENSLER, CAPITAL

19—						19—					
Feb.	10	Present Capital	✓	38	80	Feb.	4		1	34	50
							10	Profit	1	4	30
				38	80					38	80
						19—					
						Feb.	11	Present Capital	✓	38	80

CASH

19—						19—					
Feb.	4		1	34	50	Feb.	4		1	34	50
	7		1	16	25		8		1	4	25
	9		1	13			10	Balance	✓	25	
				63	75					63	75
19—											
Feb.	11	Balance	✓	25							

NAILS, STOCK ACCOUNT

19—						19—					
Feb.	4		1	34	50	Feb.	10	Inventory	✓	13	80
							10	Sales acct.	1	20	70
				34	50					34	50
19—											
Feb.	11	Inventory	✓	13	80						

SALES

19—						19—					
Feb.	10	Stock acct.	1	20	70	Feb.	7		1	16	25
	10	Profit & Loss acct.	1	8	55		9		1	13	
				29	25					29	25

Expense

19— Feb.	8		1	4	25	19— Feb.	10	Profit & Loss acct.	1	4	25

Profit & Loss

19— Feb.	10	Expense acct.	1	4	25	19— Feb.	10	Sales acct.	1	8	55
	10	P. J. Hensler, net profit	1	4	30						
				8	55					8	55

A final statement of ownership would include the cash on hand and the unsold nails, as follows:

Balance Sheet, Feb. 10, 19—

		Cash		25				P. Hensler, Investment	34	50		
		Nails		13	80			P. Hensler, Profit	4	30		
								" Capital			38	80
				38	80						38	80

This record shows (1) that Peter J. Hensler's ownership Feb. 4 was $34.50 in cash; (2) that his ownership Feb. 10 is $38.80, consisting of 6 kegs of nails valued at $13.80, and $25 in cash; (3) that there has been an increase in values of $4.30, which we call "profit"; (4) that this profit is derived from the sale of 9 kegs of nails, costing $20.70, for $29.25, at an expense of $4.25.

2. Lewis Fairchild is a newsboy who has a cash capital of $1. During the week beginning March 10 (current year) he bought 225 copies of the *Chicago Tribune* @ 1¢, and 35 copies of the *Saturday Evening Post* @ 3½¢. He made sales for cash as follows, the *Tribunes* bringing 2¢ and the *Posts* 5¢ each:

March 11, 30 *Tribunes;* March 12, 28 *Tribunes;* March 13, 33 *Tribunes;* March 14, 29 *Tribunes* and 12 *Posts;* March 15, 45 *Tribunes* and 8 *Posts;* March 16, 54 *Tribunes* and 12 *Posts.* His incidental expenses during the week for car fares, etc., were 57¢. Assuming that the papers

unsold were worthless, find (*a*) the cost of the papers sold, (*b*) the selling price of the papers sold, (*c*) the gross profit, and (*d*) the net profit. What profit per cent was made on the *Tribunes?* On the *Posts?* What was the net profit per cent on the investment?

Show the following accounts closed: Lewis Fairchild (Investment), Purchases, Stock of Papers, Sales, Expense, Profit & Loss, and Cash.

3. Joseph Jackson, a dealer in grain and feed, buys Oct. 1, 19—, 100 bales hay @ $3. Oct. 10 he sells 20 bales @ $4; Oct. 15, 30 bales @ $4; Oct. 18, 15 bales @ $4. During the time from Oct. 1 to 18 he has used 7 bales for feed. Assume that all purchases and sales are for cash, and that incidental expenses, which are paid Oct. 16, amount to $12.50.

The following is the *Stock* account:

STOCK OF HAY

19— Oct.	1	Purchases	2	300		19— Oct.	18	Inventory	√	84	
							18	Feed acct.	2	21	
							18	Sales "	2	195	
				300						300	
Oct.	19	Inventory	√	84							

Show all the other accounts involved: Joseph Jackson (Investment), Cash, Sales, Expense, Profit & Loss. Show the Balance Sheet Oct. 18.

What was the amount of Joseph Jackson's ownership Oct. 1? Of what did it consist? What was his ownership Oct. 18? Of what did it consist? Has there been an increase or decrease of values? An increase or a decrease in ownership? On which side of the ledger are values entered? On which side is ownership entered? What accounting term includes all values? If goods costing $400 are sold for $500, and cash is received, how much of this represents value increase? How much the original investment?

In summarizing assets, is any distinction made between original investment and income on the investment? Referring to the preceding exercise, what was the amount of ownership before the goods were sold? After the goods were sold? What is an increase in ownership called? On which side of the ledger does this increment appear? Why? What are value decreases called? On which side of the ledger are they found? Why? Are they separated from other items? If so, when? What disposition is made of them?

Name ten different articles that have value. How is the value of an article determined? Has quantity anything to do with value? How is quantity determined? What else enters into determination of value?

If a business man has property July 1 valued at $6000, and property July 31 following, valued at $7000, and debts amounting to $400, what has happened in this man's business experience? What is the source of profit in a trading business? What two factors are involved in finding profit? Using figures of your own invention, show how to find the cost of goods sold. How would you find the gain or loss per cent on goods sold?

Define the following: Value, ownership, investment, assets, liability, profit, loss, inventory.

4. From the following data prepare accounts of Purchases, Stock of Goods, Sales, Expense, and Profit & Loss: June 1 (current year), stock of goods, $8765; purchases during June, $4312.50; June expenses, $325.34; sales, $6453.20; stock of goods June 30, $7658.75.

5. Dec. 1 (current year) you buy 200 bbl. apples @ $2.75. During the month of December you make the following sales: Dec. 5, 10 bbl. @ $3.75; Dec. 12, 25 bbl. @ $3.75; Dec. 23, 155 bbl. @ $3.50. Dec. 23, you appropriate the remaining 2 bbl. of sound apples to your own use, 8 barrels having frozen and rotted. Incidental expenses have been $75.60. (*a*) What is the cost of apples sold? (*b*) If you charge the 2 bbl. of apples to yourself at cost, what has been your profit? (*c*) If you charge the 2 barrels to yourself at $3.50 per barrel, what has been your profit? Assume that all transactions have been settled in cash. Open and close the required accounts. Show the balance sheet, Dec. 23, 19—.

6. Dec. 1, 19—, you are employed by James D. Hewlett, flour and feed merchant, to take charge of his books. You find the accounts in Mr. Hewlett's ledger show the following differences:

JAMES D. HEWLETT, CAPITAL

							19— Nov.	1			2000

JAMES D. HEWLETT, PRIVATE

19— Nov.	18				50						

CASH

19— Dec.	1				215						

Purchases

19— Nov.	30					786	90								

Stock of Goods

19— Nov.	1					1650	75								

Sales

								19— Nov.	30					967	40

Furniture & Fixtures

19— Nov.	1					265									

Expense

19— Nov.	30					176	35								

E. A. Barnes & Co.

								19— Nov.	30					311	60

Hiram Kennedy

19— Nov.	30					135									

What does J. D. Hewlett's capital account show? When is the proprietor's capital account credited? When is it debited?

What does J. D. Hewlett's private account show? When is this account debited? For what is it credited?

What does Cash account show? For what is Cash debited? Cred-

ited? If we receive $962.50 and pay $747.90, the difference represents what? If you were to take charge of the cash in this business and assume responsibility, would you accept this cash balance without verifying it? How would you verify it?

What does the balance of the Stock of Goods account represent? Sales account? Purchase account? What items are charged to Furniture & Fixtures? To Expense? Do items charged to Expense represent value received? Why, for instance, should a typewriter be charged to *Office Furniture*, while the wages of the typewriter operator are charged to *Expense?* What is the essential difference between the following species of value: A five-dollar bill, five dollars' worth of coal to be used as fuel, five dollars' worth of electric current used for light, five dollars' worth of flour bought to be sold, an office chair costing five dollars, and Hiram Kennedy's promise to pay five dollars?

What does the balance of E. A. Barnes & Co.'s account represent? What does that of Hiram Kennedy? What class name do we apply to those to whom we sell goods? What name is given to those from whom we buy goods?

Tell whether the following accounts should ordinarily show a debit or a credit difference, and explain why: The proprietor's capital account, Cash, Stock of Goods, Purchases, Sales, Furniture & Fixtures, Expense, customers' accounts, trade creditors' accounts.

In taking charge of Mr. Hewlett's books, should you test the accuracy of the former bookkeeper's work? How may this test be made? You may copy the foregoing ledger accounts on ledger paper, giving to each account eight lines' space, and test the accuracy of this ledger.

If the ledger is apparently correct, proceed to make entries of the following transactions, using sales book, purchase book, cash book, and journal. Open the cash book with the cash balance of Dec. 1, 19—.

Dec. 1. Pay E. W. Scott cash for a quantity of stationery for office use, $15.30.

2. Buy of E. A. Barnes & Co., terms net 30 days, 600 bu. oats @ 40 ¢; 600 bu. corn @ 65 ¢.

3. Sell Harvey Jerome, terms 5 days, 100 bu. oats @ 51 ¢; 150 bu. corn @ 77 ¢; 10 T. #1 timothy hay @ $24.50.

5. Receive of Hiram Kennedy his check for $135, in full of his account.

5. Pay J. D. Hewlett $25, personal drawings.

6. Pay the C. B. & Q. Railroad weekly freight account, $15.75.

NOTE. — This item is for freight on purchases, called "Inward freight," or "Freight inward." It should be charged to an account of that name and closed into *Purchases* at the end of the period, or charged direct to *Purchases*, as it is a part of the cost of goods bought. In this exercise you may debit *Purchases* for freight inward items.

6. Pay wages of employees for the week, $35.

6. Pay postage and petty expenses, $3.65.

6. Sell B. A. Manion, terms Jan. 1, 2 T. ground feed @ $35; 3 bbl. flour @ $6.50; 5 T. #2 timothy, $21.

6. Charge E. A. Barnes & Co., with $17 for bags returned to him.

8. Sell Hiram Kennedy, terms Jan. 1, 200 bu. corn @ 65 ¢.

8. Receive of Harvey Jerome, to apply on invoice of the 5th inst., $200.

9. Pay E. A. Barnes & Co., to apply on account, $311.60.

10. Pay Walter Chave, December rent of premises, $65.

11. Buy of the Central States Grain Co., terms 30 days, 150 bbl. patent flour @ $6.60.

12. Pay for office supplies and petties, $1.75.

13. Give B. A. Manion credit, $53.50, for bags returned by him.

13. Pay the C. B. & Q. Railroad, weekly freight account, $37.40.

13. Pay wages of employees for the week, $35.

Determine the cash balance, close the cash book, and carry the balance forward to Dec. 14. Close sales and purchase books, and post all books. Take a trial balance, Dec. 13, and close the ledger.

Inventories: Stock of goods, $2955.35. Unexpired rent, one half month, $32.50. Cash, Furniture & Fixtures, and book accounts at book value.

Below are the assets and liabilities of James D. Hewlett Dec. 13, 19—. Find Mr. Hewlett's capital Dec. 13. Comparing this capital with Mr. Hewlett's capital Nov. 1, what do you conclude has been the progress or decline of the business? Prepare a trading and profit and loss statement that will account for the profit or loss of the business since Nov. 1.

Assets and liabilities of James D. Hewlett Dec. 13, 19—.

Assets: Cash, $4.55; Accounts Receivable, $482.50; Stock of Goods, $2955.35; Furniture & Fixtures, $265; Unexpired rent, $32.50. Liabilities: Accounts Payable, $1603.

7. Assume that the items comprising the following accounts of customers and trade creditors are settled on their respective discount dates, and make the required cash book entries. Copy the accounts on a sheet of ledger paper. Open additional accounts with *Purchase Discount*, *Sales Discount*, and *Cash*. Close and post the cash book, and take a trial balance.

The columns in the cash book are ruled for the following headings:

Left page, — Sundries, Sales Discount, Net Cash; right page, — Sundries, Purchase Discount, Net Cash. *Purchase discount, when taken, is a credit item; sales discount, a debit item.*

HENRY J. COLBURN HELENA, MONT.

19— May	2	2/10 n/30	7	345	70								
	10	3/5 "	8	250									
	25	" "	12	325									
	28	3% cash	12	400									

JOHN W. HAMMOND TITUSVILLE, PA.

19— May	5	3/10 n/60	7	125	80								
	9	" "	8	68	75								
	18	net cash	10	250									
	20	3/10 n/60	10	96									

WYCKOFF & CO. HERKIMER, N. Y.

19— May	1	3% cash	7	490									
	10	net 10 days	8	450									
	15	2% cash	10	365									
	23	1/5	11	118	75								

CROUSE, EGBERT & CO. TACOMA, WASH.

						19— May	14	1/10 n/30	9	112	50		
							18	" "	10	90			
							27	Net cash	12	300			

EMERSON & HOUGH NEW ORLEANS, LA.

						19— May	8	3% cash n/30	8	165	50		
							17	" " "	10	139			
							21	" " "	11	245	60		
							23	Net cash	11	345			

CREDIT INSTRUMENTS

Notes and Drafts

The ultimate purpose of all business undertakings is to convert goods or services into money. This exchange of things for money is sometimes completed in one transaction, when the entry becomes *Cash* (Dr.), *Sales* (Cr.).

When credit is given and payment is deferred, two entries are necessary to complete the exchange; namely, *Customer* (Dr.), *Sales* (Cr.), and *Cash* (Dr.), *Customer*(Cr.).

When the customer gives his note or acceptance in settlement, there are three steps in the process; namely, *Customer* (Dr.), *Sales* (Cr.), *Notes Receivable* (Dr.), *Customer* (Cr.), and *Cash* (Dr.), *Notes Receivable* (Cr.).

NOTES RECEIVABLE

Debited when we receive the written promise of another to pay money — notes and acceptances in our favor.	Credited: I. At maturity. 1. When redeemed (paid). 2. When renewed. (*a*) By new promise to cover old promise. (*b*) By part payment in cash and renewal for balance. 3. When dishonored (not paid). (*a*) Involving protest fees. (*b*) Not involving protest fees. II. Before maturity (converted). 1. When discounted. 2. When transferred to settle a debt. 3. When the maker or drawee becomes insolvent, suspends payment, or assigns.

Because of the fact that notes and acceptances are often disposed of before maturity, often involve an interest item, and are sometimes not met at maturity and have to be charged back to the customer, the subject calls for special study. The following problems are given for that purpose. The solution of these problems will be much simplified if the student will

keep in mind the fact that the customer's account, and that of notes receivable, are intervening steps in the process of exchanging goods for cash; that when the contract of sale is completed, these items are canceled, with a resulting entry of *Cash* (Dr.), *Sales* (Cr.). If interest becomes involved, this must be treated as an entirely separate transaction; namely, the purchase or sale of the right to use money. This does not mean that interest necessarily should be adjusted in a separate entry. It does mean that interest is a *property right*, just as separate and distinct from notes as notes are distinct from money or goods.

Jan. 2, 19—. Sell Benjamin Baker merchandise valued at $400, Baker to give his 30-day note in settlement.

This transaction would result in the following charge to Baker's account:

BENJAMIN BAKER

19— Jan.	2	N/R 30 da.	5	400							

Jan. 5, 19—. Receive of Benjamin Baker his 30-day note, dated Jan. 2, for invoice of that date, $400.

No. 864 Cincinnati, Ohio, Jan. 2 19—

Thirty days after date I promise to pay to

the order of Richard Halpin $400.00

Four Hundred 00/100 Dollars

Value received, at the Continental National Bank.

Benjamin Baker

The above promise differs from that which a book account implies in that it is *negotiable*. If the financial standing of Halpin or Baker is good, the holder, Halpin, may discount it (sell it) at his bank and receive cash or credit for the proceeds. Good accountkeeping distinguishes that for which there is a certain demand at a fixed price — " quick " or " current " assets — and that which can be converted only as a cash customer is found. Assets range in their convertible quality all the way from cash itself to those

fixed properties of a business, such as office furniture, plant, machinery, etc., which are required for use and will not be sold unless the business winds up its affairs. Fixed assets are profit-earning agencies of the business, and are just as necessary in the conduct of its affairs as convertible assets; but money funds must be all the time available to meet current obligations and maintain the credit standing of the business.

Notes Receivable

The universal purchasing and debt-paying power of money, and its near equivalents, distinguishes it as an asset of the highest rank. Banks are, ordinarily, cash customers for all good commercial paper; and because this paper is a step nearer cash in the process of converting goods into money, it is rated as a better kind of asset than a mere book account, and is accordingly recorded in a separate group of items under the caption *NOTES RECEIVABLE*. A "notes receivable" may therefore be defined as the negotiable promise of another to pay us. This promise does not legally cancel the debt. The effect of giving a negotiable promise to pay only suspends the remedy for the debt until the maturity of the new promise; but we credit the giver, because he has given us, from a business standpoint, a more desirable form of value, and debit *Notes Receivable*, thus:

BENJAMIN BAKER

19— Jan.	2	N/R 30 da.	5	400		19— Jan.	2	Note 30 da.	7	400	

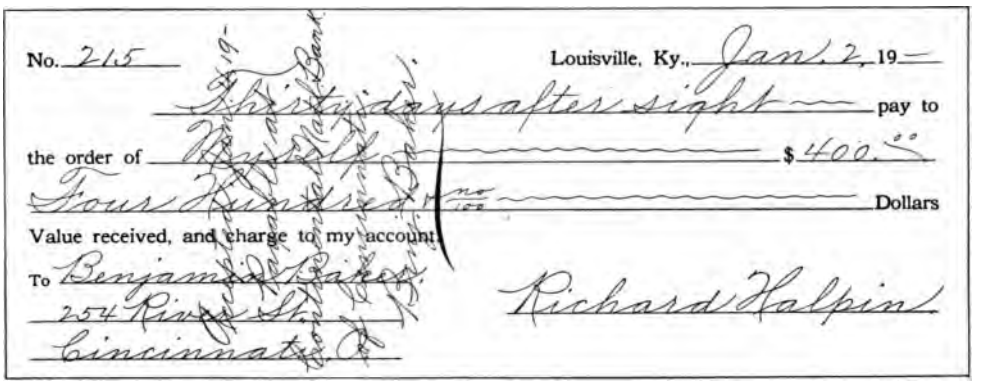
NOTES RECEIVABLE

19— Jan.	2	Benj. Baker	7	400							

The source of items on the left side of the *Notes Receivable* account is the journal (or notebook, when such a book is kept). The following would serve as the original entry of the receipt of Baker's note.

		2			
		Notes Receivable	400		
		Benjamin Baker			400
		Received of Benj. Baker his 30-day note payable at the Continental Nat'l Bank, Cincinnati, and dated Jan. 2 for inv. of that date, $400			

The same situation, from an accountkeeping standpoint, would have risen if Halpin had drawn a draft on Baker and Baker had accepted it, thus


No. 215 Louisville, Ky., Jan. 2, 19—

Thirty days after sight pay to

the order of Myself $400.00

Four Hundred 00/100 Dollars

Value received, and charge to my account

To Benjamin Baker
254 River St.
Cincinnati, O.

Richard Halpin

This is a kind of letter addressed by Halpin to Baker, asking the latter to pay " Myself " (Halpin) the amount stated at the time specified. Baker promises to pay by writing across the face of the paper the word *Accepted*, the date, where payable, and his signature. This, like the note, is Baker's written promise to pay money, is negotiable, and on Halpin's books would be entered under the title " Notes Receivable." A note is a direct *promise* to pay, while a completed draft is an accepted *request* to pay, called an " acceptance." The debit side of *Notes Receivable*, then, records the receipt of the negotiable promises of other persons in our favor.

Illustrative Transactions

Exercise 14

Assuming that you are the proprietor and bookkeeper, journalize the following transactions and write a concise explanation of each entry.

1. Jan. 5, 19—. Receive of Richter & Roche their 30-day note payable at the Pan-American Bank, dated Jan. 3 for invoice of that date, $167.50. Write the note. (Use places of your own selection in this exercise.)

Note. — In business, negotiable instruments are always made, signed, accepted, and indorsed by the several parties thereto. In this work, however, you will be required to perform the functions of all these parties, in order to give you practice in making, handling, etc., such instruments, thereby enabling you to become familiar with their various forms. In business or private life you should never sign another person's name without having proper authority to do so, for then you would be committing forgery.

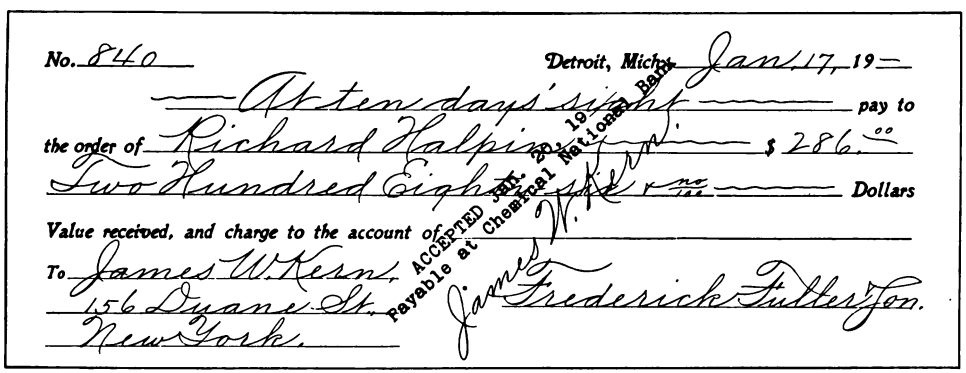
2. Jan. 6, 19—. Receive of Curtis & Collins, to apply on account, A. M. Wolfson's 2-months' interest-bearing note dated Dec. 15, payable at

the Bank of the Republic, $300. How do you acquire the right to a note payable to Curtis & Collins? Write the note and the indorsement.

3. Jan. 8, 19—. McCreary & Co. have accepted your 60-day draft payable at the Golden Gate National Bank, $372.60, to apply on account. Draft dated Jan. 2, accepted Jan. 5. Write the draft, payable to *Myself*, and the acceptance.

The one making the promise to pay is called in a note, the "maker"; in an acceptance, the "drawee." The one to whom a draft or a note is made payable is called the "payee." The one who writes the draft, or requests the payment, is called the "drawer."

How many parties are there to a draft? How many to a note? Name the payee in the note of Richter & Roche in the first transaction above. Name the maker. Who is the maker of the note received from Curtis & Collins, dated Dec. 15? Name the payee of this note. The drawer and payee of your draft on McCreary & Co. above are combined in one person. Who is the drawer-payee? Who is the drawee? Name the parties to the following paper.


No. 840 Detroit, Mich., Jan. 17, 19—

At ten days' sight pay to

the order of Richard Halpin $ 286.00

Two Hundred Eighty-six no/100 Dollars

Value received, and charge to the account of

To James W. Kern,
156 Duane St.,
New York.

ACCEPTED JAN. 20, 19—
Payable at Chemical National Bank

James Frederick Fuller & Son.

NOTE. — Whenever the name "Richard Halpin" appears, the student will substitute his own name.

Define a draft. What is an acceptance? Define a promissory note. Define notes receivable. When is *Notes Receivable* account a debtor?

Our next inquiry relates to the circumstances under which *Notes Receivable* may become credited. The one thing that distinguishes Notes Receivable from personal accounts receivable is the negotiable quality of the value which Notes Receivable represents, and which wholly ceases and terminates at the maturity of the paper. No bank would take a note or draft for discount after maturity. It follows then that past due paper should not be called "Notes Receivable." The life of the paper is the life

of the account which must be divested of and credited for its holdings, at or before the due date of the paper, the receipt of which this account records.

Negotiable paper may or may not draw interest. The following transactions do not involve interest calculations. Make and explain the required entries.

4. Aug. 5, 19—. Receive of Oliver Courtney his 2-months' note, dated Aug. 1, payable at the Second National Bank, $650, for invoice of that date. Write the note.

5. Oct. 1, 19—. Oliver Courtney paid his note due to-day, $650.

6. Aug. 4, 19—. Receive of T. W. Horn his 30-day note, dated Aug. 4, payable at our office, for invoice of that date, $325.50.

NOTE. — An entry of the receipt of a negotiable paper should show the date, amount, and duration of the paper, from whom received, for what received and where payable.

7. Aug. 7, 19—. O. F. Sheppard accepts our 60-day draft, payable at the Bank of Commerce, St. Louis, Mo., in full settlement of his account, $450. Draft dated Aug. 4 and accepted Aug. 6. Write the draft, and the acceptance.

8. Sept. 3, 19—. T. W. Horn renews his note of Aug. 4, due to-day, by giving us his 15-day note, dated to-day, and payable at the Chemical National Bank, $325.50. Write the note.

9. Sept. 18, 19—. T. W. Horn pays his note due to-day, $325.50.

NOTE. — When a written promise to pay is redeemed, the holder writes across the face *Paid*, the date and his signature, and returns the paper to the maker, or drawee, as the case may be.

10. Oct. 5, 19—. O. F. Sheppard remits his check for $250 and his 30-day note for $200, to take up his acceptance due to-day. This note is dated Oct. 5 and is payable at the Third National Bank. Write the note.

11. Oct. 7, 19—. Give Thomas Watson, O. F. Sheppard's 30-day note of the 5th inst. to apply on account, $200. Write across the back of this note, left end, *Pay to the order of Thomas Watson*, (your own name), and pass the note to Mr. Watson.

NOTE. — A writing on the back is called an "indorsement." The foregoing is a "special indorsement," or an "indorsement in full," and is made to transfer the title of the paper to Mr. Watson. See Indorsements, page 196.

12. The following account on your books is settled in accordance with the terms indicated in the wide column; make the required entries.

DE WITT STILSON & CO.

19—												
Aug.	8	N/R 2 mo	15	567	75							
	15	" 30 da.	17	360								
	20	" 60 da.	17	250	25							

No. 135 Denver, Colo., Aug. 8, 19—

Two months after date we promise to pay to

the order of Richard Halpin $ 567.75

Five Hundred Sixty-seven 75/100 Dollars

Value received, at the Western National Bank.

De Witt Stilson & Co.

No. 7867 Chicago, Ill., Aug. 12, 19—

At thirty days, 15 Bank, pay to

the order of Myself $ 360.00

Three Hundred Sixty no/100 Dollars

Value received, and charge to my account

To De Witt Stilson & Co., Denver, Colo.

Richard Halpin.

ACCEPTED Aug. 15, 19— Payable at the Western National Bank, of Denver De Witt Stilson & Co.

13. Aug. 21, 19—. Remit Charles Bettis, St. Louis, Mo., to apply on our account, De Witt Stilson & Co.'s note of 8th inst., $567.75. Write the required indorsement.

Sept. 1, 19—. Leave at the Bank of Illinois for collection De Witt Stilson & Co.'s acceptance of the 15th of August. Should you part with this paper without getting a receipt?

14. Sept. 18, 19—. The Bank of Illinois reports acceptance of De Witt Stilson & Co., due the 14th inst., returned unpaid. Is a dishonored promise to pay any longer Notes Receivable? Charge the note back to Stilson's account.

15. Sept. 20, 19—. Receive of De Witt Stilson & Co. their check for $160 and their 15-day note for $200, to cover their dishonored acceptance due the 14th inst. Note is dated Sept. 14.

16. Oct. 5, 19—. Remit the Western National Bank, Denver, $567.75, to take up De Witt Stilson & Co.'s note of Aug. 8.

This action is taken upon receiving word that De Witt Stilson & Co. have failed. The note is payable at the Western National Bank. When we sent this note to Charles Bettis, St. Louis, we indorsed it, and thereby made ourselves conditionally liable to Bettis and to subsequent holders for its payment. The condition is that the holder at maturity presents the paper where it is made payable and gives prompt notice of non-payment. We know that De Witt Stilson & Co. cannot meet this note; that Mr. Bettis, and perhaps others to whom he may have transferred the paper, will be put to trouble and inconvenience; that ultimately we shall have to meet the cost of protest and notice; and that, in a way, Stilson & Co.'s failure to pay reflects upon us. To avoid the expense and protect our credit and business reputation, we remit the amount involved to the Western National Bank, with instructions to return the note to us. When this paper is returned to us, is it still Notes Receivable? What entry?

17. Oct. 5, 19—. When notice of Stilson & Co.'s assignment reaches us, we have their note of Aug. 20 at 60 days, $250.25, and their note of Sept. 14 at 15 days, $200. What disposition should be made of this paper on our books?

18. On a sheet of ledger paper open an account with De Witt Stilson & Co., enter the charges shown on page 112, and post all items of a later date belonging to this account. Is giving a note payment or the suspension of payment?

19. Oct. 30, 19—. De Witt Stilson & Co. of Denver have reached an agreement with their creditors to settle on the basis of 50¢ on the dollar. Receive their 30-day note, dated Oct. 27, and indorsed by Stevens Brothers of Denver, for $509, in full settlement of their account. Write the note and the indorsement. Is this note Notes Receivable? Why? What should be done with the balance of Stilson & Co.'s account?

The preceding transactions had to do solely with non interest-bearing paper. We have now to study transactions involving interest and discount items.

Interest and Discount

A debt draws interest (1) when there is an agreement to pay interest, and (2) after the due date of the debt. The difference between an interest-bearing and a noninterest-bearing paper is that the former includes the words *with interest* while the latter makes no mention of interest, or contains the words *without interest.*

Interest is a temporary right to the use of money. This right, like all other rights, is acquired by purchase and disposed of by sale. The right to another's services we call "wages," "labor," or "salary"; the right to use another's building, " rent "; the right to ride on a railway train, " transportation," or " car fares "; to have our goods carried, " freight," or " express "; to use the mails, " postage," etc.

Confusion often arises in the minds of students of business because they fail to make a distinction at the beginning between the right to use money and the cash with which that right is purchased and paid for. Money is *cash.* Debts draw interest after they become due, and interest is a charge for deferred payment. In other words, interest is the difference between the cost of present and future cash. If you hire your neighbor's horse, the value of the work done by the horse is value received, the value of the money paid for that work is value given; one is a debtor, the other, a creditor. You must regard interest-bearing debts as *money at work.* Your money working for some one else earns you something; another's money working for you costs you something. That which earns or gives value is a creditor; that which costs or receives value, a debtor. If you buy the right to use another's money, debit that which you buy, *interest,* but credit that which you pay, usually *cash.* If you sell the right to use your own money, credit that which you sell, *interest;* but debit that which you receive in payment, usually *cash.* *Discount* is the purchase or sale of the advance payment of a debt, that is, interest paid in advance. There is no reason why interest and discount should not be included in one account.

20. Assume that the following ledger accounts are settled in accordance with the terms indicated in the wide column. The paper of Ward & Helligas is noninterest-bearing, all other paper is interest-bearing. Make the required entries.

WARD & HELLIGAS

19—												
Oct.	13	Draft 1 mo.	16	325								
	21	" 60 da.	17	455	50							

WHEELOCK & CO.

19—												
Oct.	7	Note 2 mo. 6%	15	456	75							
	25	" 90 da. "	18	325	40							

J. & M. ANDREWS

19— Oct.	4	Note 30 da. 6%	14	350									
	13	" 2 mo. "	17	400	50								

HOWARD LAMBERSON

19— Nov.	22	Note 30 da. 6%	24	180									
	29	" 10 da. "	25	200									

21. Nov. 3, 19—. J. & M. Andrews pay their note of Oct. 4 due to-day, $350. Have they had the use of our money? How long? What does this cost them at 6%? How much does it earn us? Is Interest a debtor or a creditor? Make the entry.

Bank Discount — Procedure

In computing discount on interest-bearing, or noninterest-bearing, notes receivable, proceed as follows:

1. Find the maturity value of the paper — what the paper will yield in cash at the due date.
2. Find the date of maturity.
3. Find the difference in time (exact number of days) between the date the paper is discounted and the date of maturity, called the "term of discount."
4. Compute the interest *on the maturity value* for the term of discount.
5. Deduct the interest for the term of discount from the maturity value. The difference will be the cash proceeds — the cash received.
6. Find the difference between the cash proceeds and the *face* of the paper, which is the discount.
7. Entry: (*a*) *Debit* Cash for the cash received.
   (*b*) *Credit* Notes Receivable for the *face* of the *paper*, because Notes Receivable has given value.
   (*c*) *Debit* or *credit* Interest & Discount for the difference between the cash proceeds and the face of the paper. If the cash received exceeds the face of the paper, *interest* has earned something, and should be credited; if the cash received is less than the face of the paper, *interest* has cost something, and should be debited.

22. Oct. 17, 19—. Discount Ward & Helligas' draft of Oct. 13, and receive credit at your bank for the proceeds. Make the entry.

Write the draft on Ward & Helligas, covering the item of Oct. 13.

In the transaction of Oct. 17 the maturity value, $325, is the face of the paper; date of maturity, Nov. 13; term of discount, 27 days; interest on maturity value, 27 days (3.25 ÷ 2 = 1.625 − 1/10 of itself = 1.46), $1.46; $325 − $1.46 = $323.54, cash proceeds, and the amount for which *Cash* is a debtor. *Notes Receivable* is a creditor for face value. *Interest* has cost $1.46, and we have the entry.

	17			
	Cash	323	54	
	Interest & Discount	1	46	
	Notes Receivable			325
	Discounted Ward & Helligas' draft due 11/13, 27 da., 6%			

No. 89 Boston, Mass., Oct. 7, 19—

Two months after date we promise to pay to

the order of Richard Halpin $456.75

Four Hundred Fifty-six 75/100 Dollars

Value received, at the Bank of Massachusetts, with interest at 6% per annum.

Wheelock & Co.

23. Oct. 20, 19—. Discount Wheelock & Co.'s note of Oct. 7 at the Garfield National Bank and receive credit for the proceeds.

Maturity value ($456.75, plus interest on this amount for two months at 6%, $4.57), $461.32; date of maturity, Dec. 7; term of discount, 48 days; interest on maturity value 48 days (.46132×8 = 3.69), $3.69; $461.32 − $3.69 = $457.63, cash proceeds.

Entry:

	20				
	Cash	457	63		
	Notes Receivable			456	75
	Interest & Discount				88
	Discounted note of Wheelock & Co., due 12/7, 48 da., 6%				

24. Nov. 1, 19—. Discount Wheelock & Co.'s note of Oct. 25 and receive the proceeds in cash. Has interest cost or earned something? Find the proceeds. Make the entry.

25. Nov. 1, 19—. Discount Ward & Helligas' draft of Oct. 21 and receive the proceeds in cash. Assume that this draft has not been accepted. Find the proceeds and make the entry.

Discounting a draft before the acceptance appears on its face is not unusual. A prior agreement to accept amounts to an acceptance, and it should be treated as a *Notes Receivable* when the paper is discounted. No business man will offer paper for discount unless he feels assured that it will be honored. In this case goods were sold Ward & Helligas on terms, to which they of course assent, of "draft 60 days," which amounts, by implication at least, to an agreement to accept our draft when presented. Moreover, we make ourselves contingently liable for the amount of the draft when we indorse it to the bank. If we are discounting a large number of customers' bills, this contingent liability should be shown, which would be impossible unless all items of this sort are put through the *Notes Receivable* account.

NOTE. — Many banks will not receive an unaccepted draft for discount, except when such draft is employed in a C. O. D. sale, and is accompanied by bill of lading and documents necessary to give the bank a lien upon the goods in transit.

26. Dec. 1, 19—. Discount Howard Lamberson's note of Nov. 22 at the Bank of Commerce and receive credit for the proceeds. Has interest cost or earned something? Write the note. Find the proceeds. Make the entry.

27. Oct. 14, 19—. Discount J. & M. Andrews' note of Oct. 4 and receive cash for the proceeds. Find the proceeds and make the entry.

The student should apply to an entry involving bank discount the following tests: First, has cash been received or paid; second, has interest cost or earned the business something; third, is our promise or some one else's promise to pay involved? Interest-bearing promises to pay us will yield more than the face value if discounted at any time between their date and the date of maturity. If we have held an interest-bearing promise any length of time, interest must have earned us something. On the other hand a noninterest-bearing paper is worth its face only at maturity. If we dispose of it before maturity, it must yield less than its face value; interest must have cost something.

28. Oct. 27, 19—. Discount J. & M. Andrews' note of the 13th inst., and receive credit at the Bank of Commerce for the cash proceeds. Make the required entry.

29. Dec. 1, 19—. Discount Howard Lamberson's note of Nov. 29

and receive cash for the proceeds. Has interest cost or earned something? Make the entry.

30. Dec. 8, 19—. Send Howard Lamberson our check to take up his note of Nov. 29, $200, which falls due on the 9th instant.

This note was discounted at our bank Dec. 1 and will be protested on the 9th if Lamberson fails to meet it. This will injure Lamberson's credit and reflect upon us as well. He has written us that he cannot meet the note and asks for an extension, which we have granted.

Charge Lamberson, not *Notes Receivable*, with the amount of your remittance.

31. Dec. 10, 19—. Receive of Howard Lamberson his 15-day note, dated Dec. 9, for $200, in accordance with the arrangement explained above.

32. Receive of John L. Willard the following note:

No. 56 Seattle, Washington, April 16, 19—

May 16 after date, for value received, I promise to pay to the order of Richard Halpin $220.00

Two Hundred Twenty & no/100 Dollars

at the Pacific Nat'l Bank, with interest at 6% per annum.

John L. Willard

May 10, 19—. Leave Willard's note of April 16 at your bank for collection.

33. May 19, 19—. Your bank notifies you that John L. Willard's note due yesterday has been returned unpaid. Is this any longer Notes Receivable? What entry?

34. April 19, 19—. Receive of Walter Eddy, Robert Brownlee's 30-day acceptance, $450, to apply on Eddy's account. Write the draft, dated April 15, the acceptance, dated April 17, and the indorsement. Make the required entry.

35. April 20, 19—. Receive of Henry Hughes, E. J. Phelps' 3-months' note, dated April 1, for $300, with interest at 6%, to apply on Hughes' account. Write the note, including Hughes' indorsement. What is the present value of this note? What account, other than Notes Receivable, has received value and must be charged? Note that interest accrued may be an asset or a liability.

36. July 1, 19—. Phelps' note is presented for payment, payment has been refused and the note has been protested. Protest fees, $2.50. Charge the maturity value of this note, and fees to Hughes. Has interest earned or cost something?

37. May 17, 19—. Robert Brownlee paid his acceptance due to-day, $450. What entry?

38. July 24, 19—. Receive of J. H. Burton & Co. to apply on account the following paper:

No. 365 St. Paul, Minn., July 7, 19—

At four months' sight pay to

the order of The American Trading Co. $ 850.60

Eight Hundred 60/100 Dollars

Value received, and charge to the account of

To Forbes & Booth
189 Clinton St.
Chicago, Ill.

John W. Van Gelder.

ACCEPTED July 9, 19—
Payable at the First National Bank
Chicago.
Forbes & Booth.

This paper shows the following indorsements: *Pay to the order of J. H. Burton & Co., The American Trading Co.; Pay to the order of Richard Halpin, J. H. Burton & Co.*

Where is the market for paper of this kind? What method will be employed in arriving at the value of this paper July 24, in case Richard Halpin (student) offers it for sale? In questions of value the market is conclusive. Find the proceeds and make the entry.

Notes Payable

As Notes Receivable is the written promise of another to pay us money, "Notes Payable" is *our* written promise to pay money to others: our notes and acceptances in their favor. In the foregoing exercises, that which was *Notes Receivable* to us was *Notes Payable* from the standpoint of the other party involved.

NOTES PAYABLE

Debited when our written promise to pay is redeemed, either before or at maturity.	Credited when we issue (give) our written promise to pay money.

39. May 7, 19—. Give Cooper, Taylor & Co. our 2-months' note, payable at the office of the Union Trust Co., for invoice of the 6th inst., $560.

	7			
	Cooper, Taylor & Co.	560		
	Notes Payable			560
	Gave them our 2-months' note, dated May 6, payable at the Union Trust Co., to cover invoice 5/5, $560.			

July 6, 19—. Pay our note for $560, favor of Cooper, Taylor & Co., which is now due.

	6			
	Notes Payable	560		
√	Cash (cash book)			560
	Cooper, Taylor & Co.'s note due			

40. Assume that the following creditors' accounts were settled in accordance with the terms indicated in the wide column, copy the accounts on ledger paper, and make and post the required entries.

TROY FOUNDRY CO.

						19—					
						May	12	N/P 3 months	27	650	
						June	7	Draft 30 days	30	225	50
							15	N/P 2 months	31	325	

VAN DUSEN & CO.

						19—					
						May	24	N/P 15 days	28	725	50
							31	Draft 1 month	29	245	
						June	18	N/P 2 months	31	312	75

In the above exercise assume that the notes are interest-bearing (the drafts are not), and write the note of May 12 favor Troy Foundry Co., and the acceptance of May 31 favor Van Dusen & Co. ("Ourselves"). This draft may be written *One month after sight*, or *One month after date*. If written " after sight," date the acceptance May 31, 19—, which is also the

date of the draft; if written "after date," the acceptance may be dated or not, although it is customary to date all acceptances.

41. Assume that the paper issued above was redeemed at maturity. Compute interest on the interest-bearing paper. Make and post the required entries.

42. Jan. 12, 19—. Buy of E. M. Jennison merchandise invoiced at $324.50, and give your 30-day note in settlement. Make two entries: one for the purchase and one for the settlement.

43. Feb. 11, 19—. You are unable to meet your note favor E. M. Jennison due to-day. Give a new 30-day interest-bearing note in settlement. Make the required entry.

44. June 8, 19—. Prepay your 3-months' note of April 12 last. Face of note, $246.50. Find the proceeds and make the entry. Is *interest* a debtor or a creditor? Why?

Accommodation Paper

An "accommodation note" is one given without consideration, for the purpose of loaning the credit of the maker or indorser. If A wished to borrow money at the bank, and the bank required him to secure the financial backing of a responsible person, A might request B to indorse A's note. A's purpose, however, might be accomplished in several ways. First, A might make his note payable to the bank and ask B to write his name underneath A's, or on the back of the paper. Second, A might draw the note in B's favor, secure B's indorsement, and then discount the note at the bank. Third, B might make his note payable to A. A would then indorse it and discount it at the bank. The question arises as to the proper entry on A's books in case the third plan is adopted.

Nov. 17, 19—

Sixty days after date I promise to pay to the order of A — Five Hundred no/100 Dollars

$500.00 (Signed) B.

From A's standpoint this is clearly *in form* a note receivable. B, however, has no intention of paying this note, which is given solely for the accommodation of A. Of course, the bank can compel B to pay, in default of A; but A cannot enforce payment, and we are now concerned with this

document from A's standpoint. Is it a *note receivable* or a *note payable?* Manifestly it is a *note payable in fact.* When this paper is discounted by A, he must debit *Cash* and *Interest,* and credit *Notes Payable.*

Sight Paper

Thus far we have considered only time paper: contracts, or promises to pay money at some future time. Notes are sometimes payable "on demand." Such a note matures whenever the holder presents it to the maker for payment. Paper payable on demand, or "at sight," is also put in the form of a draft. The more common forms of sight paper are illustrated below.

No. 800 Fort Worth, Texas, April 17, 19—

At sight pay to

the order of Andrew G. Wilson $145.00

One Hundred Forty-five & no/100 Dollars

Value received, and charge to the account of

To Barker Brothers,
78 Gulf St.
New Orleans, La.

Richard Halpin

Form 1

This form is called a "sight draft," and when used, it is employed between persons, firms, and corporations, other than banking institutions, but it is now rarely seen in business.

No. 364 Seattle, Washington, May 3, 19—

Northwestern National Bank

Pay to the order of L. K. Beebe $173.85

One Hundred Seventy-three & 85/100 Dollars

To Chemical National Bank
315 Broadway, New York

Herbert Watkins Cashier

Form 2

This form is called a "bank draft." Although the words *at sight* are not employed, it is nevertheless a sight draft. It differs from the first form only in its personnel; both the drawer and drawee of a bank draft are banking institutions. Drafts on New York banks are called "New York drafts"; on Chicago banks, "Chicago drafts," etc.

No. 74

Chemical National Bank

New York, Dec. 12, 19—

Pay to the order of Peter W. Hyde & Co. $675.00

Six Hundred Seventy-five & no/100 Dollars

Ellsworth Hicks

Cashier

Form 3

This is the sight draft of the cashier upon his own bank, and is called a "cashier's check." Manifestly, if a bank in a large money center is asked for a draft on its own city, it will issue a draft upon itself rather than one upon some other bank. A nonclearing-house bank, however, will sometimes sell drafts on a clearing-house bank in the same city. Although there is nothing to prevent any bank from issuing cashier's checks, their chief purpose is to enable banks in financial centers to issue and redeem their own exchange.

Northwestern National Bank

Seattle, Wash., July 7, 19—

Pay to the order of W. V. Hildreth $1265.50

Twelve Hundred Sixty-five & 50/100 Dollars

Bartlett & Brown

Form 4

Form 4 is called a "check," which is in reality the sight draft of a depositor upon his bank. It differs from a bank draft only because the

drawer is an individual or firm and not a bank. Just as individuals and firms keep money on deposit in a local bank and draw drafts (checks) against that deposit, banks keep money on deposit in other banks upon which to draw. Practically all banks in the United States will sell drafts on New York or Chicago banks. Usually the name of the drawee of a check is printed at the top or at the side, but occasionally it is printed in the lower left-hand corner. (See form 5.) This is merely a matter of taste.

No. 678 St. Paul, Minn., Mar. 3, 19—

Pay to the order of Adler & Stiles $1000.00

One Thousand Dollars

To Minnesota Trust Company
76 State Street
St. Paul, Minnesota

Franklin Peabody.

GOOD when properly endorsed. MINNESOTA TRUST CO. A. B. Stiles Cashier

Form 5

Form 5 is called a "certified check." The bank upon which it is drawn has certified that the drawer, Franklin Peabody, has a sufficient sum of money on deposit, and the bank assumes responsibility for payment of the check when presented for that purpose. Certification is much the same in effect as the acceptance of a draft.

No. 1879

Bay State National Bank
of Boston

Boston, Mass., January 11, 19—

Raymond Brownlee & Co. have deposited in this bank

Five Thousand & 00 Dollars $5000.00

payable to the order of themselves on the surrender of this Certificate properly endorsed.

Not Subject to Check

N. A. Van Gelder, Cashier

Form 6

Form 6 is in effect a demand note, but is called a "certificate of deposit." Certificates of deposit are frequently made payable at some future

time, and usually draw interest. They are used when a customer wishes to deposit a fund for safe keeping, or as an investment, and does not wish to draw it out by check.

Other forms of sight paper are the "express money order" and the "postal money order." An express money order is the sight draft of one express office on another of the same company. A postal money order is the sight draft of one post office on another. Because of certain restrictions affecting their negotiability, and their cost, these forms of exchange are employed in business, as a rule, only for small amounts.

A sight draft calls for the payment of money by the drawee to the payee when the latter presents the draft to the former. A time draft calls for the payment of money by the drawee to the payee at a specified future time. Follow the rule with which you are already familiar: Debit that which receives value; credit that which gives value.

The *drawee* of a sight draft gives *cash;* of a time draft, a *note payable.*

The *payee* of a sight draft receives *cash;* of a time draft, a *note receivable.*

The *drawer* of either a time or a sight draft receives value of the *drawee,* and gives value to the *payee.*

Drafts are frequently made payable to the drawer; one person or firm acts in the capacity of both drawer and payee, thus:

No. 87 San Francisco, Cal., Feb. 21, 19—

At sight pay to the order of Ourselves

Two Hundred Fifty & no/100 Dollars $250.00

Value received, and charge the same to account of

To Mason & Horne,
Ogden, Utah.

Seymour Ballard & Co.

Form 7

It is very common practice for merchants to draw on delinquent debtors and pass the draft through the bank for collection. A request of this kind is usually more effective than that of a dunning letter as a means of collecting a debt. Frequently there is an understanding between debtor and creditor that the latter shall draw on a certain date. Assuming that the

draft will be honored on presentation, the drawer sometimes deposits it in his bank and receives immediate credit. Banks, however, object to giving credit for out-of-town paper until the collection is reported. A transaction involving a two-party draft should offer little difficulty to the bookkeeping student. Since the drawer and payee are combined in one, the drawer debits himself *as payee* in the account that receives value — *Cash* or *Notes Receivable* — and credits the one who gives value, the drawee.

Name the debtors and creditors in the following transactions:

45. May 2, 19—. Jarvis Elliott, Buffalo, N. Y., draws on Henry Olds, Detroit, Mich., at 30 days' sight in favor of the drawer for the amount of Mr. Olds' account, $356.50. Assuming acceptance May 5, 19—, write the draft and acceptance. Give (*a*) drawer's entry; (*b*) drawee's entry.

46. Assuming the above draft is drawn " at sight " instead of " at 30 days' sight," give (*a*) Mr. Elliott's entry; (*b*) Mr. Olds' entry.

47. May 5, 19—. Henry Olds, Detroit, remits Jarvis Elliott, Buffalo, a New York draft for $356.50, in settlement of account. What entry would appear on Mr. Olds' books? On Mr. Elliott's books? Where would Mr. Olds procure this New York draft? Consult form 2, page 122, supply information not given, and write the New York draft mentioned.

48. Receive of Taylor, Cooper & Co., O. M. Howard's 60-day acceptance, $1000. The draft is dated July 7, 19—, accepted July 9, and received by you, July 12. Give (*a*) your entry, (*b*) Taylor, Cooper & Co.'s entry, (*c*) O. M. Howard's entry. Assuming the draft is made payable to order of " Ourselves " and indorsed by Taylor, Cooper & Co. to you, write the draft and indorsement.

Short Exercises Involving Merchandise Discount

The following short exercises call for the use of journal, cash book, purchase book, and sales book, as books of original entry, and a ledger. Transactions involving merchandise discounts are introduced. *Discount allowed on a sale is a debit item. Discount taken on a purchase is a credit item.*

Sales discount adjustments are involved in the receipt of money from customers; purchase discount adjustments are involved in the payment of money to trade creditors. It is therefore convenient to handle these items by running a sales discount column on the left page, and a purchase discount column on the right page of the cash book.

Use a cash book ruled as follows:

Left page:

Date	Fo.	Accounts Cr.	Particulars	Sundries	Sales Dis. Dr.	Net Cash

Right page:

Date	Fo.	Accounts Dr.	Particulars	Sundries	Purch. Dis. Cr.	Net Cash

The following forms will answer the purpose for the sales and purchase books.

SALES BOOK

Date		Fo.	Customers	Particulars	Items		Inv. Value	
19— Feb.	2		Frank Lambert, 3/10 n/30					
			3 Porc. Bath Tubs @ 85		255			
			1 Thatcher Furnace		235			
			1 F. & W. Range		85	50	575	50

PURCHASE BOOK

Date		Fo.	Trade Creditors	Particulars	Items		Inv. Value	
19— Feb.	10		Harrison & Co., 2/10					
			1 doz. I. C. Freezers				24	

Use the ordinary form of journal for opening and closing entries, and for all entries not otherwise disposed of.

HARDWARE AND HOUSE FURNISHING BUSINESS

EXERCISE 15

Feb. 1, 19—. Andrew Hopkins began a hardware and house furnishing business, with the following assets acquired by purchase from James Curtis: Stock of goods inventoried at $5370.50, furniture and fixtures valued at $215.70. Mr. Hopkins also invested cash, $200.

2. Sell James Phelps, terms 2/5 n/30, 3 porcelain bath tubs @ $140; 1 Thatcher tubular furnace, $235; 1 Fuller & Warren range, $45.50.

4. Buy of the Standard Manufacturing Co., terms 2/10 n/30, 3 standard vacuum cleaners @ $65.

5. Pay the News Printing Co. for blank books and stationery, $15.50.

6. Sell J. H. Weston, terms 2/15, 4 Arctic refrigerators @ $16.50.

7. Receive of James Phelps for invoice of the 2d inst., $700.50, less 2%.

Enter the invoice amount in the Sundries column; the discount in the Sales Discount column; and the net amount in the Net Cash column. This entry, in terms of debtor and creditor, reads: *Cash 686.49* (Dr.), *Discount 14.01* (Dr.) *James Phelps 700.50* (Cr.). Analyze each entry involving discount until you are entirely familiar with this procedure.

7. Cash sales 2d to 7th inst., inclusive, $437.20.

9. Sell Marshall & Thomas, on their note at 30 days, 5 doz. Yale locks @ $6.25; 2 doz. bronze butts @ $3.20.

10. Pay postage, telegrams, and petties, $9.75.

10. Buy of Gilbert & Co., terms 2/10, 1 doz. ice cream freezers @ $24.

11. Receive of Marshall & Thomas their 30-day note, dated Feb. 9, for invoice of that date, $37.65.

13. Buy of Cleveland & Co., on account, 5000 ft. wire fencing @ 1½¢.

14. Indorse Marshall & Thomas' note in full to Cleveland & Co. and send it to the latter to apply on our account.

Write the note and the indorsement.

NOTE. — A full, or special, indorsement is one that specifies the indorsee, thus: *Pay to the order of Cleveland & Co.*, (Signed) *Andrew Hopkins*. This designates Cleveland & Co. as the new payee of the paper; and if the note should become lost in the mails, it would be worthless in the hands of a third party.

14. Pay the Standard Manufacturing Co. for invoice of the 4th inst., $195, less 2%.

14. Pay wages of office help to date, $65.

14. Cash sales for the week, $150.20.

16. Buy of Smith Brothers, 2/10 n/30, 5 porcelain bath tubs @ $97.50; 2 Thatcher furnaces @ $175.

18. Andrew Hopkins, proprietor, draws $150 for personal use.

19. Pay J. C. Adams & Son for 1 Standard typewriter, $105.

20. Pay Gilbert & Co. for invoice of the 10th inst., $24, less 2%.

20. Marshall & Thomas, whose note we received and passed to Cleveland & Co., have made an assignment for the benefit of creditors. Cleveland & Co. have returned the note for credit.

Charge the note back to Marshall & Thomas. Failure on the part of a customer to meet his obligations should show in his account, not in *Notes Receivable*.

20. Remit Cleveland & Co. for their invoice of the 13th inst., $75.

21. Receive of J. H. Weston for invoice of the 6th inst., $66, less 2%.

21. Pay Albert Gould, salesman, salary to date, $54.

21. Pay postage and petty expenses to date, $7.65.

21. Cash sales for the week, $79.60.

Close all books of original entry, post, take a trial balance, prepare a statement, and close the ledger. Give Sales, Expense, and Profit & Loss seven lines' space; all other accounts five lines' space.

Inventories: Merchandise stock $5312, furniture and fixtures at cost. Cash on hand, $921.65. The account of Marshall & Thomas is considered worthless.

GROCERY BUSINESS

Exercise 16

Richard F. Yale is in the grocery business June 1, 19—, with the following assets and liabilities: Cash, $268.75; stock of merchandise, $5513.50; furniture and fixtures, $365. Customers' book accounts considered good: H. G. Wheelock, $96.40; Davis & Co., $136. Note of R. F. Yale favor R. Moe & Co., dated May 21 at 30 days, $230. Accounts with trade creditors: The Pacific Grocery Co., invoice dated May 23, terms 3/10 n/30, $250; Watson Brothers, invoice dated May 25, terms 2/10 net 30, $236.75.

Use journal, cash book, purchase and sales books, as books of original entry, and a ledger. Employ the usual form of journal, sales book, and purchase book. The cash book is ruled as follows: Left page: "Sundries," "Sales Discount," "Sales," "Net Cash"; right page: "Sundries," "Purchase Discount," "Expense," "Net Cash."

What is Notes Receivable? Notes Payable? When is Notes Receivable debited and when credited? When is Notes Payable debited and when credited? Repeat the rules for debiting and crediting sales and purchase discounts. If special columns are employed in the cash book for merchandise discount, on which side should the sales discount column be found? On which side the purchase discount column? Why?

Determine Richard F. Yale's capital June 1, open the ledger in accordance with the data given in the opening paragraph above, and enter the following transactions for posting.

June 2, 19—. Pay the Pacific Grocery Co. for invoice of the 23d ult., $250, less 3%.

3. Buy of the Pacific Grocery Co., terms 3/10 n/30, 10 css. gold soap @ $3.40; 450 lb. mocha coffee @ 24½¢.

4. Richard F. Yale invests cash, $100.

4. Cash sales 1st to 4th inst., $230.

4. Pay Watson Brothers for invoice of the 25th ult., $236.75, less 2%.

5. Sell Walter Carr, terms 2/5 n/30, 25 sacks flour @ 70¢, 150 lb. pearl tapioca @ 3¾¢.

6. Buy of Smith & Wesson, terms n/30, 60 bx. Gordon's codfish @ $2.50, 8 bx. boneless codfish @ $2.85.

6. Pay clerk hire to date, $46.50; postage and petties, $5.75.

6. Cash sales 5th and 6th inst., $86.40.

8. Receive of H. G. Wheelock his 30-day interest-bearing note dated June 4, in full of account, $96.40.

9. Discount H. G. Wheelock's note of the 4th inst. at the People's National Bank and receive credit for the proceeds.

NOTE. — In many states a note maturing on a holiday becomes due and payable the first business day following. Follow this practice in discounting the notes in this exercise. Notes falling due on Saturday, because of the half-holiday for banks, are ordinarily held without protest until the following business day.

10. Buy of the Peerless Truck Co., terms 5/10, one auto truck, $675.

11. Cash sales 8th, 9th, 10th, and 11th inst., $246.

12. Receive of Walter Carr for invoice of the 5th inst., $23.13, less 2%.

13. Receive of Davis & Co., to apply on account, $100.

13. Pay clerk hire to date, $46.50.

13. Pay the Pacific Grocery Co. for invoice of the 3d inst., less 3%.

13. Cash sales 12th and 13th inst., $97.50.

15. Receive of E. P. Graham $30 on old account, which, owing to Mr. Graham's assignment, was charged to Profit & Loss Dec. 31 last.

15. Sell A. L. Rogers & Co. on their 30-day note, 25 bx. mackerel @ $1.90; 15 bbl. flour @ $5.60.

16. Pay the Riverside Garage for account of the 10th inst., 10 gal. gasoline @ 16 ¢. (Charge *Delivery Expense.*)

16. Pay B. F. Mott June rent of premises, $100.

16. Pay premium on fire insurance policy, Edw. Rice, Agt., $15.50.

16. Pay car fares, postage and petties, $6.45.

17. Buy of the Southern Grocery Co., terms cash, less 3%, 600 gal. N. O. molasses @ 28½ ¢; 250 gal. P. R. molasses @ 32 ¢.

17. Receive of A. L. Rogers & Co., their 30-day note dated June 15, for invoice of that date, $131.50.

17. Cash sales 15th, 16th, and 17th inst., $275.

18. Pay the Southern Grocery Co. for invoice of the 17th inst., $251, less 3%.

18. Pay the So. Pacific Ry. freight account to date, $34.60. (Charge *Inward Freight.*)

19. Receive of Davis & Co. in settlement of account, $46.

19. Davis & Co. have overpaid their account $10. Refund this amount in cash.

20. Sell John L. Stewart on account 10 bx., 200 lb., raisins @ 8 ¢; 20 bx. parlor matches @ $1.20; 10 hf. chests, 600 lb., Oolong tea @ 36 ¢.

20. Pay R. F. Yale to cover expenses of a business trip, $45.70.

20. Buy of the Pacific Grocery Co., 3/10 n/30, 500 sacks flour @ 60 ¢.

20. Pay clerk hire to date, $60; Gray & Son stationery bill of 16th inst., $12.50; postage and petties, $3.25.

20. Cash sales 18th, 19th, and 20th inst., $150.

20. Pay the Peerless Truck Co. for account of the 10th inst., $675, less 5%.

20. Discount our 60-day note for $500 at the People's National Bank, and receive credit for the proceeds.

Enter the amount of this interest in the Sales Discount column in red ink, and post it to *Interest* account.

20. Pay our note favor R. Moe & Co. due to-day, $230.

20. Close books of original entry, post, take a trial balance dated June 20, 19—, prepare a business and financial statement and close the ledger.

Before posting, open ledger accounts in the following order: Richard F. Yale (Capital), Richard F. Yale (Private), Cash, Notes Receivable, Notes Payable, Stock of Goods, Purchases, Sales, Inward Freight, Delivery Expense, General Expense, Rent, Insurance, Interest, Merchandise Discount, Profit & Loss, Delivery Equipment, Furniture & Fixtures, Walter Carr, Davis & Co., E. P. Graham, A. L. Rogers & Co., Jno. L. Stewart, H. G. Wheelock, Smith & Wesson, Southern Grocery Co., Pacific Grocery Co., Watson Brothers. Give Profit & Loss ten lines' space; Richard F. Yale, Capital, and Pacific Grocery Co., each eight lines; all other accounts, five lines.

Inventories: Stock of goods, $5397.94; cash, $126.28; delivery equipment and office furniture at book value. The notes and book accounts of customers are considered good. Account of H. Snell for gasoline, $18.50, unpaid; drivers' wages unpaid, $25.

In making up the Profit & Loss account, state the earnings of the business as *net profit* before the items under *Interest* and *Merchandise Discount* are brought into the account.

Close the account of *E. P. Graham* into the proprietor's private account, for the reason that this item was charged to the proprietor as a loss last year, and has nothing to do with the earnings of the present period.

WHOLESALE DRY GOODS BUSINESS (Partnership)

Exercise 17

O J. Sullivan is engaged in the wholesale dry goods business Feb. 28, 19—, with the following assets and liabilities:

Stock of dry goods	$6758.90

(Your place) March 19—

✓	Cash (See C. B. Page 1)	415	50		
	Notes Receivable Harold Mott's 30-day note, dated Feb. 27, 19—	240			
	S. N. Durland & Co. Inv. Feb. 3, terms 2/30 320. " " 25, " 3/10 218.50	538	50		
	Kenneth Cornell Inv. Feb. 15, terms n/30	57	50		
	George A. Beebe Inv. Feb. 24, terms 2/10	156	50		
	Stock of Goods, per inventory	6758	90		
	Office Furniture	965			
	Notes Payable O. J. Sullivan's 60-day acceptance of Jan. 7, favor Scott, Carpenter & Co			400	
	N. B. Claflin & Co. Inv. 2/26, 3/10 n/30			450	
	Marshall Field & Co. Inv. 2/20, 2/10 n/30			327	60
	O. J. Sullivan, Capital O. J. Sullivan and W. A. Tanner have formed an unlimited partnership under the firm name of Sullivan & Tanner, to continue the business hitherto conducted by O. J. Sullivan. O. J. Sullivan invests the assets and the successor firm assumes the liabilities enumerated in the foregoing schedule. W. A. Tanner invests $3977.15. (See contemporaneous cash book entry). Profit or loss to be shared. O. J. Sullivan 2/3, W. A. Tanner 1/3			7954	30

Customers' accounts, considered good:		
S. N. Durland & Co.		
Inv. Feb. 3, terms 2/30	$320.	
Inv. Feb. 25, terms 3/10	218.50	
Kenneth Cornell		
Inv. Feb. 15, n/30	57.50	
George A. Beebe		
Inv. Feb. 24, 2/10	156.50	752.50
Cash		415.50
Notes receivable:		
Harold Mott's 30-day note, dated Feb. 27, 19—		240.
Office furniture, valued at		965.
Trade creditors:		
H. B. Claflin & Co. inv. Feb. 26, terms 3/10 n/30		450.
Marshall Field & Co. inv. Feb. 20, terms 2/10 n/30		327.60
Notes payable:		
O. J. Sullivan's 60-day acceptance of Jan. 7 last, favor Scott, Carpenter & Co., payable at the First Nat'l Bank		400

March 1, 19—. O. J. Sullivan and W. A. Tanner form an unlimited partnership, under the firm name of Sullivan & Tanner, to continue the business hitherto conducted by Mr. Sullivan. Mr. Sullivan invests the assets, and the new firm assumes the liabilities in the foregoing schedule. Mr. Tanner invests a sum in cash equal to one half of Mr. Sullivan's capital on this date. Profit or loss to be shared: O. J. Sullivan two thirds, W. A. Tanner one third.

Use journal, cash book, purchase book, sales book, and ledger.

All rulings the same as in exercise 16, except that no "Sales" column is needed in the cash book.

Make the opening entry in the journal, setting forth in a brief explanation the terms of the partnership agreement. Include the cash balance with Mr. Sullivan's other assets in the journal entry, but check-mark (√) the item in the folio column, as all cash will be included in the cash book. Open the cash book with the cash balance of $415.50.

What considerations determine the form and content of an original entry? If you cannot answer this question, review pages 41 to 45. Repeat the formula with reference to transactions on the left page of the cash book; the same with reference to the right page, the purchase book, the sales book, and the journal.

1. Receive of W. A. Tanner his personal check for the amount of his investment, $00000.

1. Buy of B. Altman & Co., invoice dated Feb. 24, terms 15 days, less 3%, 20 css. percale, gingham, galatea, French flannel, women's suitings, mousseline, chiffon, etc., $1065. (Enter this in the purchase book as invoice *No. 1.*)

1. Pay A. H. Haynes & Co., agents, March rent of business premises, $175.

2. Pay James Foley cash for 1 office desk, $45.

2. Sell P. F. Miller, terms 2/5, 10 pcs. Shaker flannel, 250 yd. @ 8¼ ¢; 10 pcs. French flannel, 520 yd. @ 32 ¢; 20 pcs. unbleached cotton, 510 yd. @ 7¼ ¢.

2. Pay Marshall Field & Co., for invoice of 20th ult., less 2%.

2. Pay postage and petties, $3.75.

3. Sell Morse & Munro, 3/10 n/30, 12 doz. ladies' hose @ $4.50; 12 doz. children's hose @ $2.16.

3. Pay Heyson & Willet cash for office supplies, $8.15.

4. Sell Hommel & Hertrich, net 30 days, 15 pcs. crepe de chine, 360 yd. @ $1; 10 pcs. mousseline, 100 yd. @ 50 ¢; 10 pcs. chiffon, 100 yd. @ 75 ¢.

5. Receive check of S. N. Durland & Co. for invoice of the 3d ult., less 2%.

5. Pay Roy Devendorf cash for blank books and stationery, $18.75.

5. Pay James Andrews cash for rubber stamps and office supplies, $6.50.

5. Receive check of George A. Beebe for invoice of the 24th ult., less 2%.

5. Sell The Alexander Olsen Co., 3/10 n/60, 10 doz. La Reine corsets @ $20; 10 doz. chamois gloves @ $15.

6. Pay car fares and petty expenses, $2.30.

6. Pay D. Weyant & Son cash for 5 T. egg coal @ $7.

6. Pay wages of clerks and office help for the week, $65.

8. Buy of Marshall Field & Co., 3/10, invoice dated March 8, 10 css. piece goods (invoice *No. 2*), $867.50.

8. Pay O. J. Sullivan's acceptance favor Scott, Carpenter & Co., due to-day, $400.

8. Receive of S. N. Durland & Co. their check for invoice of the 25th ult., $218.50, less 3%.

8. Pay H. B. Claflin & Co., for invoice of 26th ult., $450, less 3%.

9. Discount Harold Mott's 30-day note of Feb. 27 at the Shoe & Leather Bank, and receive credit for the proceeds.

9. Pay postage, telegrams, and petties, $4.55.

9. Sell David Kubie & Brother, net cash, 50 rolls liberty ribbon @ $2.90; 25 rolls taffeta ribbon @ $3.

9. Sell Salkin & Bernas, net 10 days, 10 pcs. percale, 420 yd. @ 12½ ¢; 15 pcs. gingham, 630 yd. @ 10 ¢.

Close the cash book, sales book, and purchase book. Post all books and take a trial balance, dated March 9, 19—.

In opening the *Sullivan & Tanner* ledger arrange the accounts in the following order: O. J. Sullivan, Capital, O. J. Sullivan, Private, W. A. Tanner, Capital, W. A. Tanner, Private, Notes Receivable, Notes Payable, Office Furniture, Stock of Goods, Purchases, Sales, Merchandise Discount, Interest, General Expense, Shipping Expense, Drayage, Profit & Loss, customers' accounts (alphabetically arranged), trade creditors (alphabetically arranged). Post inward freight direct to Purchases. No Cash account is to be kept in the general ledger. Give Stock of Goods, Purchases, Furniture & Fixtures, Sales, Merchandise Discount, Expense and Profit & Loss each eight lines' space; all other accounts, five lines.

Exercise 17 (*Continued*)

March 10, 19—. Pay petty expenses, $1.25.

11. Pay B. Altman & Co., for invoice of the 24th ult., $1065, less 3%.

11. Receive of David Kubie & Brother check for invoice of the 9th inst., $220.

11. Draw sight draft on P. F. Miller for invoice of the 2d inst., $224.01, and leave the draft at your bank for collection. Allow him 2% discount.

12. Buy of Samuel Meyer, 3/10 n/30, invoice dated March 8, 10 doz. ladies' suits, $978.80.

12. Pay Charles Vopelak, carpenter, for repairs and alterations, labor and material, $105.65.

12. Make the following sales: McCarthy Brothers, 2/5 n/30, 12 doz. suede gloves @ $24; 20 doz. linen handkerchiefs @ $2.50. Brooks & Son, 2/10 n/30, 12 pcs. crepe de chine, 288 yd. @ $1.10.

12. Pay car fares and petties, $5.60.

12. Pay Robt. Shaw, agt., insurance policy, $7000, @ ½%.

13. Receive a check of Morse & Munro for invoice of the 3d inst., $79.92, less 3%.

13. Pay wages of clerks and office help, $65.

13. Pay McGinn Brothers printing account in full, bill 3/11, $24.60.

15. Receive of Kenneth Cornell his check for invoice of the 15th ult., $57.50.

15. Receive of The Alexander Olsen Co. their check for invoice of the 5th inst., $350, less 3%.

15. Sell the Warner Dry Goods Co., terms note at 30 days, 50 doz. cotton thread @ 52 ¢; 50 gross ocean pearl buttons @ $2.25; 100 gross hooks and eyes @ 52 ¢.

15. Pay the Union Pacific R. R. Co. freight account 1st to 15th inst., $26.75.

15. Pay the Brooke Smith Mfg. Co. cash, less 2%, for packing cases and materials, $125. (Charge *Shipping Expense*, C. B. entry.)

16. Your bank reports collection of draft of the 11th inst., on P. F. Miller.

17. Buy of the Mohawk Glove Co. ladies' and misses' gloves, invoice dated March 12, terms 3/10 n/30, $245.60.

17. Receive of McCarthy Brothers their check for invoice of the 12th inst., $338, less 2%.

17. Pay postage, telegrams, and petties, $5.40.

17. Pay the Middlestates Telephone Co., March service, $14.50.

18. Receive of the Warner Dry Goods Co., their 30-day note, dated March 15, for invoice of that date, $190.50, and payable at the Shoe & Leather Bank.

18. Pay Samuel Meyer for invoice of the 8th inst., $978.80, less 3%.

18. Discount the Warner Dry Goods Co.'s note of the 15th inst., at the Shoe & Leather Bank, and receive credit for the proceeds.

19. Pay Thomas Chesterton drayage account March 1 to 18, $8.75.

20. Pay wages of clerks and office help to date, $65.

20. Pay petty expenses, $3.65.

Close all original books of entry, post, take a trial balance, prepare a statement, and close the ledger by means of journal entries.

Inventories: Stock of goods, $8106.40; furniture & fixtures, $1000; cost of 20 days' lighting, Edison Light & Power Co., unpaid, $14.50 (estimated); packing cases and materials, $100; 4½ T. egg coal @ $7.

Practice Exercises

1. Items on the left side of an account representing a department of the business indicate value received. When the value so received is parted with, the fact is recorded by an entry or entries on the right side of the account. Consider (1) that the value received by one department of the business might be transferred to another department; (2) that it might be carried forward to another period of time; (3) that it might be absorbed in conserving or advancing the business welfare; (4) that it might be lost in the destruction of a valuable thing; (5) that it might be transferred (sold) to some one outside the business; and (6) that an error might have been made in making the entry, which would have to be rectified by a cross entry. When the value received by an account is transferred, consumed, or disposed of, and proper entries thereof are made, the credit side of the account must equal the debit, and this equilibrium is marked by double-ruled footings on the same horizontal line. The account is then said to be "closed."

Copy the following accounts and show by proper entries *several* ways in which each account might become divested of the value lodged in it. Foot and rule the accounts so closed.

Purchases

19—															
Dec.	31				4765	82									

Stock of Goods

19—															
Dec.	1				8900										

Office Furniture

19—															
Dec.	1				325										
	25				25										

Cash

19—															
Dec.	31				6453	40									

Inward Freight

19—															
Dec.	31				145	67									

Horses

19—															
Dec.	1				760										
	18				175										

Expense

19—															
Dec.	31				418										

Offices

Austin, Texas
Shreveport, La.
New York

Date of Order *January 25, 19—*

No. of Bales *One Hundred*

Weight of *One Hundred* Bales of Cotton shipped by F. G. Smith & Co., for account and risk of *A. L. Kane*

Landed at *Boston* via *Galveston*

S. S. *Pleiades*

A L K F. G. Smith		1	538	11	541	21	555	31	570	41	550		
		2	600	12	560	22	495	32	570	42	571		
		3	537	13	588	23	570	33	565	43	650		
		4	523	14	558	24	560	34	581	44	560		
		5	544	15	521	25	537	35	565	45	596		
		6	575	16	545	26	571	36	522	46	615		
		7	530	17	531	27	557	37	556	47	565		
		8	546	18	565	28	585	38	557	48	587		
		9	517	19	497	29	496	39	520	49	605		
		10	590	20	560	30	560	40	597	50	556		
1/100													
		51	536	61	530	71	545	81	521	91	555		
		52	533	62	570	72	576	82	551	92	553		
		53	540	63	531	73	605	83	575	93	590		
		54	533	64	547	74	617	84	553	94	573		
		55	555	65	515	75	557	85	542	95	517		
		56	608	66	621	76	562	86	537	96	500		
		57	555	67	537	77	565	87	530	97	505		
		58	555	68	585	78	562	88	506	98	547		
		59	575	69	547	79	535	89	515	99	560		
		60	514	70	594	80	608	90	550	100	483		

Total Weight

March 15, 19—

F. G. Smith & Co.,

Per *A. W. T.*

2. The weight-note on page 138 represents a quantity of middling upland cotton purchased by A. L. Kane @ 10.6 ¢ ($10\frac{6}{10}$ ¢) a pound f. o. b. Austin, Tex. The numbers in the first and alternate columns indicate the numbers of the bales, those in the second and alternate columns, the weight in pounds of the bales. When A. L. Kane received this cotton April 2, he paid transportation charges, $125, and later made the following sales:

April 4, bales Nos. 1 to 20 @ 13.4 ¢ a pound; April 9, bales Nos. 31 to 50 @ 13.6 ¢ a pound; April 15, bales 51 to 70 @ 13.5 ¢ a pound; April 24, bales Nos. 81 to 100 @ 13.7 ¢ a pound. Kane's expenses for storing, insuring, and handling the cotton were as follows: April 2, insurance, $27.50; April 16, petty disbursements, $12.50; April 30, storage, $25; April 30, wages, $60. April 30 Mr. Kane inventoried the cotton unsold at cost, and calculated the result of his venture.

NOTE. — Manifestly, the cost of this cotton should include freight. Since 20 bales — one fifth of the cargo — are on hand, $25 freight may be included in this inventory.

Set up the following accounts: *Stock of Cotton, Sales, Expense, Profit & Loss.* Close the accounts.

3. At the close of business Aug. 31, 19—, the following footings appeared in the accounts of Joseph Kahn's ledger:

Page 1

CASH

19— Aug.	31				6870	13	19— Aug.	31				5400	11

STOCK OF GOODS

19— Aug.	1				4420	16							

PURCHASES

19— Aug.	31				3425	70	19— Aug.	31	Returns			412	50

SALES

							19— Aug.	31				5590	20

Notes Receivable

19— Aug.	31			2500		19— Aug.	31			500	

Notes Payable

19— Aug.	31			1800		19— Aug.	31			4300	

Page 2

Expense

19— Aug.	31			456	80						

Merchandise Discount

19— Aug.	31			196	13	19— Aug.	31			312	75

Interest

19— Aug.	31			35	82	19— Aug.	31			15	41

A. P. Hill & Co.

19— Aug.	31			3958	76	19— Aug.	31			450	

Strong Brothers

19— Aug.	31			50		19— Aug.	31			415	25

Profit & Loss

						19— Aug.	1			112	16

The proprietor's investment account is omitted. (*a*) Find the amount of Joseph Kahn's investment, supply his account, and enter the investment under date of Aug. 1, 19—. (*b*) Copy this ledger on ledger paper, and take a trial balance. (*c*) Make a balance sheet, Aug. 31, 19—, and close the ledger. Following are the inventories: Stock of goods, $2881.20; interest accrued on notes receivable, $8.25; interest accrued on notes payable, $16.45.

4. James and Malcolm Andrews, equal partners, own an ice plant Jan. 1, 19— (current year), valued at $12000, and delivery equipment valued at $6700. During the winter of 19— they cut 1 acre (43560 sq. ft.) of ice 16 in. thick, at a labor cost of cutting and storing of 12½ ¢ per 100 lb. (Assume that ice weighs 56 lb. to the cubic foot.) The cost of packing materials is $150.

During the summer the following sales were made: April, $709.25; May, $1263.45; June, $2778.75; July, $3986.55; August, $3941.25; September, $2840.50; October, $869.30; November, $581.31. The selling price of the ice was 60 ¢ per 100 lb., and the labor cost of delivery, 6 ¢ per 100 lb. The cost of feed and care of horses was $2456.76; horseshoeing, repairs, and incidental expenses, $467.80; depreciation of delivery equipment, 8%; 5% of customers' accounts proved worthless.

Assuming that the business required a cash investment of $5800, find (*a*) the profit or loss per cent; (*b*) the loss per cent from shrinkage in the weight of ice between harvesting and marketing. Set up and close the following accounts: *James Andrews*, *Malcolm Andrews*, *Stock of Ice*, *Sales*, *Shrinkage*, *Expense*, *Profit & Loss*.

5. R. D. King and George Shone are engaged in farming as equal partners. During the month of April, 19—, they plant ten acres of potatoes, with the following expenditure of labor and materials: Plowing, $2.50 an acre; harrowing, four times at 35 ¢ an acre; fertilizer, 5¾ tons @ $40; seed, 125 bu. @ 73 ¢; disinfecting seed (labor and material), $6.75; cutting seed at 6 ¢ a bushel; planting, 25 hours (horses and men) at 65 ¢. The ground is harrowed three times before the crop is up, at a cost of $11, and cultivated 8 times during the season, at a cost of 35 ¢ an acre. The potatoes are sprayed 6 times, at a cost of $10 each time. Hoeing and weeding costs $1.50 an acre; harvesting and hauling, $15 an acre.

The yield averages 220 bu. an acre. They sold 1500 bu. at 55 ¢; 500 bu., at 45 ¢. The land rental is $35, and the cost of storing and marketing the crop, $65. Allow 10% for depreciation of implements, valued at $325. Construct and close the following accounts: *Cost of Planting*, *Cost of Maintenance*, *Cost of Harvesting*, *General Expense*, *Stock of Potatoes*, *Sales*, *Profit & Loss*. There is on hand at the time of closing: 165 bu. of potatoes, 50 bu. of which have been sold at 65 ¢ a bushel,

and paid for but not delivered. The remaining 115 bu. are appraised at 65 ¢ a bushel.

Open accounts with partners, and transfer to each his share of the profit or loss.

RETAIL SHOE BUSINESS

Exercise 18

A. L. Knapp commenced a retail shoe business Oct. 1, 19—. May 31, the following year, the books were closed and a statement was prepared. The balance sheet showed the following assets and liabilities:

ASSETS

Cash on deposit in Second Nat'l Bank,	$ 968.90	
Accounts Receivable, considered good,	467.50	
Stock of boots, shoes, trunks, and bags,	19768.	
Real estate (business block),	29000.	
Store and office fixtures,	975.	
Five shares Second Nat'l Bank stock,	500.	
Insurance unexpired,	40.	$51719.40

LIABILITIES

Notes Payable:		
Smith Shoe Co., April 15, 60 days, int. 6%,	$200.	
Rice Brothers, May 20, 30 days, int. 6%,	250.	$450.
Interest accrued on notes payable,		2.
Trade Creditors:		
Dunn & Douglas, inv. 5/22, terms 20 days, less discount of $1 per dozen (89 pairs),	$231.50	
Hilliard & Co., inv. 5/15, terms 4/30 n/60,	94.40	
Hilliard & Co., inv. 5/2, terms 2/30 n/60,	25.60	
Hines & Hurd, inv. 6/1, due 12/1, less 5%,	241.92	
Verdon & Mott, inv. 5/25, 2/10 n/30,	101.10	$694.52

Petty Accounts Payable:			
G. H. Young, inv. 6/1, terms 2/10 n/30,	$18.50		
Bagg Brothers, inv. 5/5, terms n/30,	4.18	22.68	
Current Liabilities:		$1169.20	
Mortgage Payable (covering business block, due June 1, 19—, and bearing interest at 5½%, payable Dec. 1 and June 1; interest paid to date),		$9000.	$10169.20

Find A. L. Knapp's present capital, and open accounts in the ledger. A general ledger will be kept, and a loose-leaf binder will be used as a customers' ledger. Goods are sold for cash and on credit. All sales will be entered on a duplicate sales slip, marked "CASH" or "CHARGE." All goods not returned or paid for at the end of each week are billed in duplicate; one copy of the bill is filed in a self-indexing binder, and the other is sent to the customer. At the same time *Accounts Receivable* account is charged with the total of such sales for the week and *Sales* is credited. When these bills are paid, the duplicate bill is removed from binder, marked *Paid*, with page of cash book, and transferred to the permanent file for reference. At the same time *Accounts Receivable* is credited.

Unpaid expense bills at the end of the month are charged to the appropriate expense account and *Petty Accounts Payable* is credited. When such accounts are paid, debit *Petty Accounts Payable* and credit *Cash*.

Cash book, purchase book, and journal only will be used as original books. The headings of cash book with rulings to correspond are as follows: Left page: "Sundries," "Accounts Receivable," "Sales"; right page: "Net Cash," "Purchase Discount," "Expense," "Sundries." In opening the ledger give Profit & Loss and Fire of June 16, each 15 lines' space; Stock of Goods, Sales, Purchases, Expense, Wages, and A. L. Knapp, Capital, each 10 lines; A. L. Knapp, Private, Accounts Receivable, Notes Payable, and Interest & Discount each 8 lines; all other accounts, 5 lines.

June 1, 19—. Remit Hilliard & Co. for invoice of 2d ult., less 2%.

1. Pay United States Telephone Co., June service, $7.50.

2. Buy of the Hudson Rubber Co., invoice dated May 27, terms 30 days net, rubber goods, $157.25.

2. Pay petty expenses, $2.75.

2. Cash sales 1st and 2d inst., $286.78.

2. Receive customers' checks as follows: W. S. Burtis, $18.65; Wm. Pettit, $7; A. K. Burtis, $24.30. (Credit *Accounts Receivable*.)

3. Buy of Goodman Rubber Co., invoice dated June 1, terms, "Due Dec. 1, discount allowed for prepayment at the rate of 6% per annum," rubber goods, $123.

3. Cash sales for the day, $176.40.

4. Pay Wm. Enright, freight and cartage, $3.55. (Charge *Purchases*.)

4. Remit Bagg Brothers for invoice of 5th ult. (Consult *Petty Accounts* for the amount of this item.)

4. Receive cash and checks from customers as follows: J. Conerty, $2.75; Albert Jones, $10.25; Lawrence Kubie, $6.35.

4. Pay Verdon & Mott, invoice 5/25, less 2%.

4. Cash sales for the day, $122.85.

5. Pay petty expenses, $4.75.

5. Remit Goodman Rubber Co. for invoice of June 1, $123, less discount. (See terms of this purchase.)

5. Cash sales for the day, $120.

6. A. L. Knapp, proprietor, appropriates shoes at cost, $9.75. (Charge *A. L. Knapp's Private* account, credit *Merchandise Stock*.)

6. E. C. Knapp, clerk, takes 1 pair shoes at cost, $3.60. Take Knapp's "I. O. U." for $3.60. This will be placed in his pay envelope on pay day when the amount will be deducted from his wages. At the present time charge *Wages* and credit *Stock of Goods* in the journal.

6. Receive cash and checks from customers: Edw. Cassidy, $15.65; Sarah Gamsu, $5; Mrs. Carl Williams, $3.40.

6. Pay postage and petties, $3.76.

6. Pay wages per pay roll: E. C. Knapp, $16.40; Fred Randolph, $18; Margaret Marsden, $15; Richard Callahan, $10. (Charge *Wages*.)

6. A. L. Knapp draws for personal use, $100.

6. Cash sales for the day, $318.22.

6. Sales on approval for the week, $51.50. (Charge *Accts. Rec.*)

Close cash book and purchase book. Post all books and take a trial balance.

Exercise 18 (*Continued*)

8. Buy of Radcliffe & Son, invoice dated June 4, terms 2/10 1/30, ladies' shoes, $62.90.

8. Buy of Cincinnati Trunk Co., invoice dated May 24, "as June 1, 19—," terms 2/10 net 30 days, suit cases, bags, etc., $79.90.

9. Receive cash from sale of 5 shares 2d Nat'l Bank stock @ $110.

9. Cash sales for 8th and 9th inst., $245.60.

9. Prepay following notes: Smith Shoe Co., due June 14; Rice Brothers, due June 19.

10. Pay Cincinnati Trunk Co. for invoice of 8th inst., less 2%.

10. Remit G. H. Young Co. for invoice of 1st inst., less 2% (Charge *Petty Accounts.*)

10. Cash sales for the day, $87.10.

11. Remit Dunn & Douglas for invoice of May 22, less discount. (Consult the terms of this purchase.)

11. Pay Herald Publishing Co. advertising account in full, $16.75. (Charge *Advertising.*)

11. Cash sales for the day, $125.60.

12. Pay Bagg Brothers for invoice of to-day's date, wrapping paper, $11.56.

13. Pay postage and petties, $9.27.

13. Pay wages per pay roll, $63.

13. Advance E. C. Knapp on salary and receive his I. O. U., $15. (See note to transaction of the 6th inst. Carry this I. O. U. as currency until pay day. No entry required now.)

13. Sales on approval for the week, $36.45.

13. Cash sales 12th and 13th, $318.50.

15. Remit Hilliard & Co. for invoice of May 15, $94.40, less 4%.

15. Hines & Hurd offer us a special discount of 2% for settlement of invoice of June 1. Make remittance to cover their account in full, less 7%.

15. Buy of Field & Potter, invoice dated June 10, "as July 15," terms 2/20, 30 days net, men's shoes, $534.40.

15. Buy of Grant & Whitman, terms 3% for cash, show case, $48.50.

15. Remit Radcliffe & Son for invoice of 4th inst., less 2%.

15. Cash sales for the day, $124.05.

15. Pay Grant & Whitman for account of 15th inst., less 3%.

Instead of opening an account in the ledger with Grant & Whitman, check the item in the folio column of the journal by using the letter *C* (cash book), and the page of the cash book on which the payment is entered; and in the cash book, the letter *J* (journal), and the page of the journal on which the entry for the purchase was made.

Close all books, post, and take a trial balance.

Exercise 18 (*Continued*)

16. A neighboring fire damaged our stock of goods and building. A claim is filed with the agent of the Phœnix Insurance Co. for $850 damage to stock, and $1500 damage to building. (No entry.)

16. Return to Field & Potter men's shoes for credit, $69.15.

17. Donated $50 to family of W. M. Smith who lost his life in the fire of the 16th inst. Should the proprietor's private account or Expense be charged for this?

17. Pay petty disbursements, $8.65.

17. Pay Wm. Enright, freight and cartage, $9.75.

17. Cash sales 16th and 17th inst., $240.12.

18. Make the following purchases: Hoyt Shoe Co., invoice dated June 18, terms 2/10, net 30, $110.40; Williams, Brown & Co., invoice dated June 10, net, $1.30; Durland Brothers, invoice dated June 16, terms 60 days, 1/30, rubber goods, $44.40.

18. Cash sales for the day, $200.

18. Settled with Phœnix Insurance Co. by accepting their offer of $750 for damage to stock, and $1100 for damage to building. (No entry.)

19. Close contract with J. Kaiser & Son to repair building, repairs not to include cost of painting and tin work; contract price, $850. (Debit *Building Repairs* and credit *Contract Account* (*J. Kaiser & Son*).)

19. Stock damaged by heat, smoke, and water appraised at $1800. Set this stock aside and advertise a "fire sale." Open *Fire of June 16* account. Charge this account, and credit *Stock of Goods* with the invoice value of damaged goods.

The purpose of segregating these goods is to keep the result of this fire out of the regular Profit & Loss account which should show the earning power of the business. While a fire is at all times possible, and the cost of protection under insurance is a legitimate charge against the earnings of the business, if a fire occurs, its cost and outcome in profit or loss are wholly apart from the regular trading activities of the business. These damaged goods should be accounted for under a separate head, and the result brought into a sub-section of the Profit & Loss account.

19. Cash sales for the day, $200.

20. Pay telegrams, car fares, and petties, $13.50.

20. Receive from Phœnix Insurance Co., in full settlement of our claim on account of fire of June 16, draft on New York, $1850.

Credit *Building Repairs* $1100; and *Fire of June 16* account $750.

20. Receive cash and checks from customers: Maud Helmer, $13.40; J. G. Walker, $5; Charles Wright, 90¢; Bernard Gutwillig, $7.85; Mrs. H. L. Mark, $10.15.

20. Pay wages per pay roll, $48. (Don't forget E. C. Knapp's I. O. U. of 15th to be included now as cash.)

20. Advance J. Kaiser & Son, on contract of 19th inst., $200. (Debit *Contract Account* (*J. Kaiser & Son*).)

20. Credit sales for the week, $55.45.

20. Buy of Bagg Brothers, terms cash, less 2%, invoice wrapping paper, $20.90.

20. Cash sales for the day, $375.80. (Credit *Fire of June 16* account with $164.50 and *Sales* account with the balance.)

20. Pay Henry Whitman, clerk hire, $3, James Prout, boy, $1.25.

This extra labor resulted from increased business on account of the fire sale and should be charged to the *Fire of June 16* account.

22. Remit Bagg Brothers for invoice of 20th instant, less 2%.

22. Cash sales from regular stock, $117.60.

22. Cash sales from fire sale goods, $186.50.

23. Pay petty expenses, $3.45.

23. Remit Williams, Brown & Co., for invoice of 18th inst., $1.30.

23. Cash sales from regular stock, $98.

23. Cash sales from fire sale goods, $112.20.

24. Receive cash and checks from customers: C. A. McCreary, $7.50; Ruth Bull, $5; Bartlett Brothers, $18.50; Mrs. J. Hinckley, $2.75; Mary Curtis, $13; John Andolscheck, $3.75.

24. Cash sales from regular stock, $130.90.

24 Cash sales from fire sale goods, $86.54.

25. Make the following purchases: Dunn & Douglas, invoice dated 6/12, terms 20 days, less a discount of $1 per dozen (108 pairs), shoes, $268.25; Hilliard & Co., invoice dated June 15, terms 4/30 n/60, shoes, $246.50.

25. Cash sales from regular goods, $155.

25. Cash sales from fire sale goods, $65.75.

26. Receive cash and checks from sundry customers: Ed. Rich, 50¢; Myrtle Greene, $1.25; George W. Stewart, $13.50.

26. Pay Wm. Enright, freight and cartage bills, $12.65.

27. Bert Phelps returns defective shoes. We give him a new pair of five-dollar shoes in exchange for the old ones, which we return to the manufacturer, Field & Potter, and charge them with the cost, $3.60.

27. Cash sales regular stock 26th and 27th, $240.95.

27. Cash sales fire sale goods 26th and 27th, $165.

27. Sales on approval for the week, sundry customers, $18.50.

27. Pay parcel post charges on parcel to Field & Potter, 35 ¢.

27. Pay wages per pay roll, $63.

27. Pay postage and petties, $4.75.

27. Buy of the Hoyt Shoe Co., invoice dated July 1, terms 2/10 net 30, children's and misses' shoes, $86.50.

27. A. L. Knapp discounts his 90-day note for $4000 at the Nat'l Exchange Bank and receives credit for the proceeds. Mr. Knapp gives the bank his check for the amount of this interest.

Enter the face amount of this note in the "Sundries" column and charge *Interest and Discount* on the right side of the cash book.

29. Pay the Hoyt Shoe Co. for invoice of 18th inst., less 2%.

29. Sell the balance of fire sale goods to A. Dobrosky and receive cash for the sale price, $275.

29. Cash sales for the day, regular stock, $195.

29. Mary Nellis returns two pairs shoes, not satisfactory. Refund the purchase price in cash, $4.75.

30. Pay John H. Lawrence in full satisfaction of the mortgage held on the business premises, $9000, with interest to date.

30. Receive cash and checks from sundry customers: W. W. Murray, $8.75; P. L. Brown, $2.50; N. Y. Construction Co., $23; Mrs. Frank Jones, $1.50.

30. Cash sales for the day, $148.50.

30. Pay petty expenses, 50 ¢.

30. Pay United Gas & Electric Co., lighting for June, $11.70. Close books of original entry, post, take a trial balance, prepare a statement and close the ledger.

Inventories, June 30, 19—: Stock of merchandise, $16642.50; insurance unexpired, $33; book account of John Muller, $18.75, is considered worthless; cash account is short $1, probably mistake in making change; all other property is appraised at book value.

Liabilities incurred and values consumed during June, which have not been recorded on the books: Salaries, two days, $21. (Credit *Wages July Account.*) Advertising, Herald Pub. Co., account of fire sale, $18.25. (Credit *Petty Accounts Payable.*)

July 1, 19—. A. L. Knapp transfers to his son, E. C. Knapp, a one-third interest in his retail shoe business, after withdrawing from the capital of the business the premises in which the business has been carried on. The partnership shall be known as A. L. KNAPP & SON. The new firm is to pay a rental of $100 per month for the use of the first floor and basement now occupied by the business. Mr. E. C. Knapp agrees to give his whole time and attention to the business, and it is agreed that the personal drawings of neither partner shall impair the present capital.

Make the required entries.

SINGLE ENTRY BOOKKEEPING

Exercise 19

The record of a business transaction by which we indicate both the giver and the receiver of value is called a " double entry." The equation to which the relationship of debtor and creditor gives rise enables the bookkeeper to test the accuracy of his work by means of a trial balance. But many business concerns of the smaller class do not keep complete records of their business transactions. Such records in business offices vary all the way from a complete record, called " double entry," to the proprietor's vest-pocket memoranda of what he considers important events. Oftentimes only such records are found as are necessary to prove executory agreements with customers and trade creditors — charges and credits to those from whom a concern buys, and to whom it sells, goods. The cash register is often employed as a check upon irregularities in the money account, and the cash book is dispensed with. Anything less than double entry, for want of a better name, is called " single entry." It cannot be defined, because it means nothing definite.

As the term " single entry " is employed in textbooks and referred to in examination questions, it usually means the ledger accounts of customers and trade creditors, together with the source book or books from which items comprising these accounts are posted. The purchase, sales, and cash books may be kept; the original entries may appear in a journal in chronological order; or the book of original entry may be dispensed with altogether, and postings made from loose-leaf memoranda. Items comprising trade creditors' accounts may be taken from their invoices, from the check stub, or from the notebook. When customers' invoices are made on a typewriter or billing machine, charges to customers may be taken from carbon copies of these invoices, and credit items from the counterfoils (stubs) of the note and check books.

If the journal only is employed as a posting medium, it may take the form shown on page 150.

Of course, if a cash book were kept, personal items would be posted from that book; and all items might be segregated and the journal practically dispensed with if the purchase, sales, and note books were also kept. One familiar with the procedure of double entry bookkeeping should have no difficulty in handling a set of single entry books.

	2				
	William V. Smith, Dr., net 20 days 25 bbl. apples @ 3.25			81	52
	3				
	T. W. Winkler, Cr., net 30 days 1 car clipped white oats, 1600 bu. @ 40¢			640	
	25				
	William V. Smith, Cr. Received cash for invoice of 2d inst.			81	25
	FEB. 2				
	T. W. Winkler, Dr. Gave him our 30-day note, payable at Corn Exchange Bank, for inv. of Jan. 2, $640			640	

Such exercises as the following, however, often arise in examinations.

1. F. D. King, whose books have been kept by single entry, decides Nov. 1, 19— to change to the double entry method. An inventory of his possessions discloses the following: Stock of goods, $7865.50; notes receivable, $1218; office furniture, $325; real estate, $8900. He has notes outstanding amounting to $975. His ledger shows customers' accounts considered good, $2365.78, and creditors' accounts amounting to $1764.50. Open accounts necessary to change to double entry.

The situation you have to meet is that which confronts you in every opening entry, it matters not how the books have been kept, or whether any books have been kept; namely, that certain persons own, or have a pecuniary interest in, certain things. However, if some of the things owned and some of the owners are already recorded in the ledger, which is to be converted into a double entry ledger, obviously the record of things already there should not be repeated. The simplest way under such circumstances is to make an opening double entry in the journal exactly as you would at the beginning of a business, and check-mark the items of customers and trade creditors as having been posted, as shown in illustration, page 151.

If the facts require you to indicate the additional accounts to be opened to effect the change from single entry to double entry without making a journal entry, exhibit all accounts except those of persons outside the business.

2. How should you determine the profit or loss of a business if the books have been kept by single entry?

Again, it matters not how the books have been kept, the calculation of profit or loss has to be verified by comparing the proprietor's equity (capital) at the beginning of the period covered, with his equity at the close of such period. And this is the method employed in single entry. Evidence of

Nov. 19—

	1				
	Notes Receivable, Sched. A	1218			
√	Accounts Receivable, per ledger	2365	78		
	Stock of Goods, Sched. B	7865	50		
	Real Estate — deed to business premises	8900			
	Office Furniture, Sched. C	325			
	Notes Payable, Sched. D			975	
√	Accounts Payable, per ledger			1764	50
	F. D. King, Capital			17934	78
	The business of F. D. King, Nov. 1, 19—, consists of the foregoing assets and liabilities as inventoried and appraised by himself				

assets, other than book accounts and notes payable, exists wholly apart from the record, whether the books are kept by single entry or by double entry. And the value of a book account is not in the record, but in that which underlies the record; namely, the financial ability of the debtor.

Any method of calculating profit involves, as a first consideration, the valuation of assets; and while a complete double entry record may aid in such valuation, recourse in every case must ultimately be had to things to which the record relates.

There is, then, only one way to determine profit, and that is by comparing the value of things owned on one date with things owned on a subsequent date, always having regard for the interests of those outside the business. This is the method employed in the construction of a balance sheet when books are kept by double entry. Double entry, however, when supplemented periodically by a revaluation of assets, shows not only what the profit or loss is, but it shows the *source* from which the profit is derived, as well as the factors of cost (expenses and losses) that tend to impair or wholly absorb the earnings of the business.

3. Compare the merits of single entry and of double entry bookkeeping.

Single entry has the " merit " of showing our relations with persons outside the business, which are really incidental to the main purpose of trading. If it were not that the practice of giving credit has become a firmly established custom in connection with merchandising, we might safely say that the matter of financing sales and purchases, and the risk which such financing entails, are activities separate and distinct from those of trading. They relate to capitalization rather than to trading, and at best are only a fragment of that which double entry exhibits. Single entry provides no means of testing the accuracy of the bookkeeper's work, which

is not a serious objection where calculating machines are employed. And, while net profit or loss may be shown as in double entry, the factors involved cannot be exhibited. The business man without information respecting the details of his business is fortunate if he long escapes financial disaster.

4. Frank DeGroot and J. P. Mitchell are partners, sharing equally in profits or losses. Their books have been kept by single entry. The following facts are derived from different sources:

Ledger accounts show: Frank DeGroot investment, $10500; J. P. Mitchell investment, $10500; sundry accounts payable, $5500; sundry accounts receivable, $8000. Other assets and liabilities are: cash on deposit in bank, $4500; notes receivable, $3300; stock of goods, $17500; full paid stock of the Great Northern Bank, valued at $3000; real estate, $5500; notes payable, $2500.

Determine the outcome of this business in profit or loss. Distribute the net result between the partners. Formulate a journal entry that will, when posted, convert the single entry ledger into one of double entry.

5. The open accounts in the single entry ledger of W. F. Hildreth show the following footings:

	Dr.	Cr.
W. F. Hildreth, Proprietor		$7865.
Charles Carman	$625.87	
Kaufman Brothers	345.76	879.50
B. O. Rich & Son	100.	647.30
R. P. Howard	550.	320.65

His bank account shows a balance of $967.10; notes and acceptances in his favor amount to $860; inventory of stock shows goods on hand valued at $6785.30; furniture and fixtures, $380. His own notes outstanding amount to $475.

Show, by means of a statement, Hildreth's assets, liabilities, and capital. Open such additional accounts in the ledger as are necessary to change it to the double entry system.

6. A set of single entry books are to be changed to double entry June 30, 19—. From different sources the following data are obtained: cash on deposit, $7300; currency on hand, $30; notes receivable owned, $4960; book accounts receivable considered good, $6320; notes payable, $2276; mortgage payable, $12000; interest accrued on mortgage, $150; merchandise purchases during the past year, $40480; sales, $49820; expenses, $3052; rent due and unpaid, $240; goods in stock at date, $8130; real estate owned, $26400; A. B. Williams, investment, $24300.

(*a*) Prepare a statement to show whether these data are complete.

(*b*) Show which method of determining profit or loss is conclusive.

(*c*) Make entries necessary to change the books to double entry.

MASONS' SUPPLIES AND BUILDING MATERIALS

Exercise 20

John R. Parker is a dealer in masons' supplies and building material, April 30, 19—. Incomplete records of his business transactions have been kept; but from different sources the following facts are obtained:

Mr. Parker's check book shows the following: Jan. 1 last balance in bank, $425.07; deposits Jan. 1 to April 30, $3940.75; checks drawn and issued Jan. 1 to April 30, $4100.40. There is $34.73 in currency on hand.

As a part of the business assets, Mr. Parker produces the following:

No. 146 Apr. 15, 19—

Thirty days after date I promise to pay to

the order of John R. Parker $300.00

Three Hundred & no/100 Dollars

Value received, payable at the American Nat'l Bank.

Howard Lamb.

A small ledger is produced containing the following open accounts:

H. B. Whitlock

19—						19—					
Jan.	7	n/30	1	255		Feb.	8		4	200	
Feb.	15	"	4	65		Mar.	1		5	120	
Mar.	1	"	5	146	50	Apr.	2		6	146	50
Apr.	1	"	6	212	60						

Stewart Treat

19—						19—					
Jan.	21	n/30	2	765	80	Feb.	20		4	765	80
	28	"	2	50		Mar.	27		6	50	
Mar.	15	"	5	75	65	Apr.	10	Returns	6	10	50
Apr.	7	"	6	100			17		7	65	15
	17	"	7	65	70						

W. J. CROSSMAN

19—						19—					
Mar.	11	n/30	5	325		Apr.	1	Returns	6	8	
Apr.	15	"	6	325			10		6	317	
							28	Returns	7	8	

JOHN R. PARKER (Investment)

						19—					
						Jan.	1	Present Capital	1	13000	

Mr. Parker produces a schedule of goods in stock as inventoried by himself April 30, amounting to $7168.35. He also produces a deed to the business premises which he values at $8000, but which is covered by a mortgage of $3500, held by the People's Savings Bank, and drawing interest at the rate of 6% per annum. Interest on mortgage has been paid to April 30.

The other business effects of Mr. Parker are appraised as follows: Horses, $900; wagons and harnesses, $465; office furniture, $125; horse feed, $135.

The invoice file contains the following unsettled invoices:

TELEPHONE 4510 MELROSE — OFFICE AND WAREHOUSE 257–263 EAST 133RD STREET — INVOICE NO. 1332

John R. Parker
(Your Place)

CHICAGO, APRIL 16, 19—

FISHER & COMPANY

SALES AGENTS FOR

THE GENERAL FIREPROOFING COMPANY

Terms: Net 30 days
No discount

F. O. B. freight allowed
Via C. B. & Q.

Purchaser's Order No.
Our Order No. 1080

Factory invoice #28277

	MATERIAL	PRICE	AMOUNT	
	34 bbl. BB galv. Herringbone, 765 yd.	23½¢	179	78
	Less freight		8	50
			171	28

30 River Street
Kansas City, Mo., April 9, 19—

John R. Parker
(Your Place)

Bought of REED & RICE

MANUFACTURERS OF THE STANDARD AMERICAN BRAND

"ADAMANT PORTLAND"

Terms: 30 days net or One Cent per bbl. discount for cash paid within 10 days from date of invoice

Works at Portland, Ore.
Coplay, Pa., and Hannibal, Mo.

Remit in New York or Chicago funds

ALL CLAIMS FOR DEDUCTIONS MUST BE MADE WITHIN TEN DAYS AFTER CEMENT IS RECEIVED

		Bbl. Adamant Portland Cement, in wood, @ per bbl.		
		150 Bbl. Adamant Portland Cement, in cloth, @ 1.57 per bbl.	235	50
		Bbl. Adamant Portland Cement, in paper, @ per bbl.		
		F. O. B. (Your place)		
		Less freight @ 80¢ per net ton	22	80
			212	70
So. Pac.	31756			

Quotation No. 3/16
Our Order No. 6889
Your Order No. 20 3/25/10
Checked by A. B.

(Bill of lading attached)

NO DISCOUNT ALLOWED ON FREIGHT CHARGES, NOR UNLESS PAYMENT IS MADE WITHIN 10 DAYS FROM DATE OF THIS INVOICE.

The wages of workmen, amounting to $18.75, are unpaid. Find Parker's profit or loss since Jan. 1, 19—.

Assume that you are to take charge of Mr. Parker's books and keep them by double entry. Make a journal entry that will include all the assets and liabilities given above, and show what Mr. Parker's capital is May 1, 19—. Open the necessary ledger accounts, giving each six lines. Plan the grouping of these accounts in accordance with previous instructions.

The promises of others to pay us money are called "Notes Receivable"; land and buildings are called "Real Estate"; our promises to pay secured by mortgage, "Mortgage Payable." Open an account with *Horses*, one

with *Wagons & Harnesses* and one with *Feed*. Credit *Wages* for the amount due workmen, and in the following narrative, debit *Wages* for amounts paid workmen. Post the opening entry.

Using cash book, ruled to meet the conditions involved in the transactions, sales book, purchase book and journal, enter the following transactions. Post and take a trial balance May 21, 19—.

May 1, 19—. Buy of Fisher & Co., net 30 days, 2% 10 days, 40000 #1 hard brick @ $5.25 per M.

2. Sell W. J. Crossman, net 30 days, 2% 10 days, 2 T. adamant in jute bags @ $24.

3. Receive of Stewart Treat 600 jute bags @ 7¢. (Charge this item to *Returned Sales*.)

3. Receive of H. B. Whitlock in full of his account, $212.60.

3. Pay wages of workmen to date, $36. (Debit *Wages* for this item.)

5. Pay postage, petties, and stationery, $6.50.

7. Sell Smith Sprague, n/30, 100 bags lath mortar @ $6.75.

8. Buy of the Ogden Cement Co., terms 30 days net, less 1¢ per bbl. discount for cash in 5 days, 150 bbl. Portland cement in cloth @ $1.55, less freight on 22½ tons @ 82 ¢.

9. Return to Reed & Rice 1000 empty bags @ 7 ¢. (Credit *Returned Purchases*.)

9. Remit Reed & Rice cash in full of their account.

10. Pay Hiram Smith, Collector, state and county tax, $26.75.

10. Pay weekly pay roll, wages of workmen, $36.

10. Pay your local railroad company freight account, $49.75. Charge the Ogden Cement Co. for freight allowed on purchase of the 8th inst. (Charge *Inward Freight* for the balance.)

10. Remit Fisher & Co. for invoice of the 1st inst., less 2%.

12. Receive of W. J. Crossman for invoice of the 2d inst., $48, less 2%.

12. Pay J. E. Thompson for wagon repairs and horseshoeing, $11.75.

13. Pay the Ogden Cement Co. for invoice of the 8th inst., less discount. (See the terms of this purchase.)

14. Pay William Chave, agent, fire insurance premium, $48.50.

15. Receive of Howard Lamb for his note due to-day, $300.

15. Receive of Stewart Treat his check in full of his account, $165.70.

15. Stewart Treat has overpaid his account $42. Send him a check for this amount in adjustment.

16. Buy a Chicago draft at your local bank and remit it to Fisher & Co. in full of their account.

16. Pay postage and petties, $8.96.

17. Receive the following from the National Gypsum Co.:

NATIONAL GYPSUM CO.

CREDIT MEMORANDUM

MANUFACTURERS OF

GYPSUM PRODUCTS

CHICAGO, ILLINOIS

SALES OFFICE
St. Louis

MILL
Oakfield # 2

To John R. Parker

DATE May 13, 19—

Allowance for material supplied to Fred Krebs, Springfield, as per your bill of May 8, 19—, and in accordance with arrangements with this office:

500 Plaster Boards at 12¢ each = $60

Under our agreement with this Company we receive credit for all sales in our territory whether the material passes through our hands or not. (Credit *Commission* for this item.)

17. Pay wages of workmen, weekly pay roll, $36.

19. Sell the Rockaway Construction Co. 100 bbl. Portland cement @ $1.80. Terms, 30 days net.

19. Receive of W. J. Crossman his 30-day interest-bearing note in settlement of his account.

21. Pay office help, $45.

21. Pay postage and petties, $3.45.

After having taken a trial balance and made a statement, close the ledger. Following are the inventories May 21, 19—.

Inventories: Merchandise, $6694.25; horse feed, $98; cash, $1435; interest accrued on mortgage payable, 21 days at 6%.

MERCHANDISE DISCOUNTS

It is a general custom in the wholesale, jobbing, and manufacturing businesses to sell goods at prices that are subject to a discount if payment is made at once or at an early date. This discount is usually a certain per cent of the invoice price, for payment on a date specified; as, an allowance of 2% for payment within ten days from the date of the invoice. Occasionally, when the term of credit is of several months' duration, a certain per cent per annum is allowed for prepayment at any time. In rare instances the discount is based upon the quantity sold; as, "Terms, 30 days, less a discount of $1 per dozen."

While there is no uniformity in the various businesses as to the term of credit or discount offered, each invoice is usually specific in regard thereto. "This account is due in 30 days from date of invoice, but subject to a discount of 3% for payment in 10 days," or the formula, "Terms 3/10 n/30," are different ways of indicating on the invoice that the term of credit is 30 days, with a discount offering of 3% for payment in 10 days.

The discounts allowed in many businesses are greatly in excess of the prevailing rate of interest. Two, three, and even five per cent for payment in ten days, when the full amount would be demanded if payment were deferred thirty days, is not unusual. Two per cent for the use of money twenty days amounts to 36% per annum; while 5% for twenty days is equivalent to 90% per annum. Manifestly, a man who could borrow money at the legal rate would not fail to take discounts on all bills.

Sales Discount

The question arises, Why does the seller, when he can borrow money at the legal rate of five to seven per cent, allow a customer so large an amount for prompt payment of bills? Three theories are advanced in connection with this question: First, it is an old and successful expedient of business men to persuade a customer that he is the object of some special consideration. The practice of giving discounts is, doubtless, in a measure, an outgrowth of this mode of appeal, although it is doubtful whether in any case goods are offered any cheaper on account of the custom. Second, business men do not ordinarily have enough capital to enable them to carry a large amount in customers' debts, and discounts are allowed to induce payment in order to get working capital. Third, prompt payment shortens the period of indebtedness, and accordingly decreases the risk of loss from bad debts. All of these reasons probably obtain in most cases.

Since the purpose which a thing serves determines the account to be charged, it is necessary to assume that discounts are allowed customers either (1) as a selling expedient, or (2) as a means of collecting customers' debts, or (3) to avoid the necessity of borrowing money to meet current obligations. Regarded as a selling expense, the item should be deducted from sales, or charged to the trading account; regarded as an operating expense, it is properly charged to *Profit & Loss;* regarded as a means of procuring available capital, it is equivalent to interest on borrowed money, and should be treated accordingly.

If we conclude that sales discount is offered to get additional working capital, the purpose of this forfeit to customers is very largely to meet the accounts of creditors from whom the goods were bought, and thereby take advantage of discount offerings and maintain the credit standing of the business. If, however, discounts are taken all around, the advantage gained on purchase discount is partially or wholly lost on sales discount; the one largely or entirely cancels the other. Under such circumstances, one account might serve to cancel the two elements, thus:

MERCHANDISE DISCOUNT

Purchase discount offered	245		Purchase discount taken	245	
Sales discount taken	162		Sales discount offered	162	
	407			407	

Failure to take purchase discount would result in a loss due to insufficient capital, thus:

MERCHANDISE DISCOUNT

Purchase discount offered	245		Sales discount offered	162	
Sales discount taken	162		Balance, capital charge	245	
	407			407	

The failure of customers to take discounts (assuming in this case that all purchase discounts were taken) would result:

MERCHANDISE DISCOUNT

Purchase discount offered	245		Sales discount offered	162	
Balance, capital income	162		Purchase discount taken	245	
	407			407	

Purchase Discount

If an invoice of goods for $500, bought on terms of 90 days, with discount offerings of 3% in 10 days, 2% in 30 days, and 1% in 60 days, is paid in 60 days, what is the value of the goods? This purchase involves an outlay of $495. If cash were paid in 30 days, there would be an outlay of $490; and if cash were paid in 10 days, there would be an outlay of $485. If the value of a thing acquired by purchase varies with the varying terms of credit, what should be the basis of valuation when the inventory is taken? If goods are to be inventoried at cost, obviously cost should not include discount offerings.

A, who has limited capital, buys goods for $500; B, who has sufficient capital, buys the same goods for $485. B covers up his deficiency by inventorying the goods at $500, and apparently suffers no disadvantage in comparison with A. Or, A buys goods invoiced at $500, with a discount offering of 3% in 10 days, and settles the account for $485. If he charges his goods account $500, and credits *Purchase Discount* $15, he has apparently made a profit of $15 by *buying goods* for what they are worth.

Notwithstanding these considerations, the practice of charging *Purchases*, or *Merchandise*, with the gross, instead of the net, price is well-nigh universal. Some bookkeepers credit *Purchases* with discounts taken; but this is not practicable when discounts are taken on purchases *other than merchandise*. And if it were practicable, matters would not be remedied unless all discounts were taken and goods were inventoried at the net cost.

Manifestly goods are worth what they cost in cash and no more. *Purchases* should accordingly be charged with the net amount when the purchase entry is made, and *Purchase Discount* should be charged with the discount *offered*. When discounts are taken, *Purchase Discount* should be credited, as usual, through the cash book. The balance of this account, if any, will be the amount forfeited by failure to take discounts.

The logic of the situation requires us to show, not what an adequately capitalized business makes by buying goods to the best advantage, but what one of insufficient capital loses in consequence. Moreover, a loss from this source should be charged, not against the earnings of its trading activities, but against its capitalization. *Purchase Discount*, as well as *Sales Discount*, should be closed into a subsection of the *Profit & Loss* account after the net profit has been stated. This view is illustrated in the procedure of the next exercise.

Whether or not the matter of segregating purchase discount and sales discount — regarding them as activities wholly apart from trading — is of sufficient practical importance to justify the required extra labor, is another question. The accounting student, however, should be aware of the extent to which practical considerations require him to ignore accounting principles.

Freight Allowed

In some lines of business, notably those of furniture, lumber, building materials, etc., materials are quoted at prices that include the cost of delivery, — that is, f. o. b., buyer's place, — with the understanding, however, that the buyer will pay the freight when the shipment arrives and charge the payment back to the seller. Payment of freight amounts to a part payment of the invoice. Under such circumstances, each freight bill must be entered separately in the cash book, and posted to the personal account involved, unless some means is devised to avoid this labor. If the freight bill can be procured with each delivery, the seller may be credited with the *invoice amount less the freight*, and *Freight Allowed* account credited with the freight. When freight is paid, charge *Freight Allowed* for the amount. This method necessitates the use of a " Freight Allowed " column both in the purchase book and in the cash book. The method explained above is illustrated in the following exercise.

FURNITURE BUSINESS

Exercise 21

March 31, 19—. The following trial balance, covering a period of six months, is taken from the ledger of Henry Brewer who is the proprietor of a furniture business.

Trial Balance, March 31, 19—

		Henry Brewer, Capital			20000	
		Henry Brewer, Private	437	10		
		Cash	654	85		
		Accounts Receivable, Sched. A	312	50		
		Stock of Furniture	16112			
		Office Furniture and Fixtures	457	89		
		Delivery Equipment	4805	56		
		Purchase Discounts Offered	20	07		
		Trade Creditors, Sched. B			1003	50
		Petty Accounts Payable, Sched. C			50	
		Purchases	12136	32		
		Sales			17124	70
		Freight Allowed			20	
		Selling Expense	1051			
		General Expense	800	71		
		Delivery Expense	1193	70		
		Advertising	216	50		
			38198	20	38198	20

The following schedules are an exhibit (*A*) of the unpaid customers' accounts, and (*B*, *C*) the unpaid creditors' accounts, and (*D*) the inventories, March 31.

SCHEDULE A

Albert Austin, inv. 2/26,	$175.	
Benjamin Brooks, inv. 2/30,	85.	
Charles Conerty, inv. 2/18,	52.50	$312.50

SCHEDULE B

Donald & Dwight, inv. 3/28, terms 2/15,	$486.	
E. J. Eagan & Co., inv. 3/20, terms 2/30 n/60,	329.	
F. W. & A. Furgeson, inv. 3/3, terms 2/30 n/60,	188.50	$1003.50

SCHEDULE C

Frank R. Wilson, 5 T. coal,	$32.50	
John Young, stationery and office supplies,	17.50	$50.

SCHEDULE D

Stock of furniture,	$16265.14	
Unexpired insurance, charged to Expense,	30.	
Delivery equipment, book value, less 10%,	000.	
Office furniture, book value, less 5%,	000.	
		$0000.00

Prepare a business and financial statement.

From Henry Brewer's balance sheet of March 31, open the ledger. Arrange and space accounts as directed below. The numbers in parenthesis indicate the number of lines required. If space is not indicated, give eight lines.

Page 1, Henry Brewer (Capital), Henry Brewer (Private), Cash, and Stock of Furniture; page 2, Purchases, Sales (10), Freight, Purchase Discount; page 3, Selling Expense (10), Delivery Expense (10), General Expense (15); page 4, Advertising (5), Insurance & Taxes, Upholstery Supplies, Repairs & Upholstering, Delivery Equipment (5); page 5, Office Furniture (5), Pay Roll, Reserve for Depreciation (5), Reserve for Bad Debts (5), Profit & Loss (15); pages 6 and 7, Accounts Receivable (5), customers' accounts (5 each); pages 8, 9, and 10, trade creditors (6 each); page 10, Petty Accounts Payable (15).

The books employed are cash book, sales book, purchase book, journal, and ledger.

Enter the following transactions:

(Your place) **April, 19—**

2

Open cash book with the cash balance, $654.85, and enter the amount short.

Sell Lewis Lincoln on account:

2 #3 brass beds @ $26,	$52.	
2 #12 hair mattresses @ $15.50,	31.	$83.

Pay F. W. & A. Furgeson for inv. 3d ult., less 2%,

Cash sales for the day, 16.50

Apr. 3

Buy of Wright Brothers, terms 2/20:

1 doz. G. O. dining chairs @ $3.25 ea.	$39.		
¼ doz. G. O. dining tables @ $22.50 ea.	67.50	$106.50	
Less freight allowed,		5.76	$100.74

Pay United States Telephone Co. April account 8.

Apr. 4

Receive of Albert Austin for invoice of 26th ult., $175.

Pay Frederick Long, agent, April rent of store and outbuildings, $100.

Apr. 5

Sell Nassau Hospital, terms cash on approval of furnishings (contract signed April 2), furniture and furnishings, $6875.

Apr. 7

Pay W. Jones, bookkeeper, $18; H. Macy and G. Hinds, salesmen, $20 each; Fred Burch, assistant, $10, $68. (Charge bookkeeper's salary to *Office Expense;* salaries of salesmen and assistant to *Selling Expense.*)

Apr. 9

Pay Central Railway weekly freight account, $25.76.

Buy of the Holdridge Furniture Co., 1/15 n/30:

½ doz. china closets @ $9.50 each,	$57.	
Freight allowed,	3.	$54.

Pay postage and petties, $2.50

Apr. 10

Sell C. A. McTigue on account:

6 reed rockers @ $2,	$12.	
1 #46A bedroom set,	78.	$90.

Cash sales for the day, $65.

Apr. 12

Pay Donald & Dwight for invoice of 28th ult., less 2%.
Cash sales for the day, $8.50.

Apr. 13

Sell Albert Austin on account:

½ doz. #83 tables @ $11 each,	$66.	
½ doz. #109 tables @ $13 each,	78.	$144.

Apr. 14

Pay wages of salesmen, $50; office help, in full to date, $18, $68.

Apr. 16

Receive of Benjamin Brooks for invoice of 30th ult., $85.
Pay petty expenses — car fares, office supplies, etc., $3.50.
Pay Central Railway weekly freight account, $3.
Cash sales for the day, $86.70.

Apr. 17

Pay accounts of Frank R. Wilson, $32.50, and John Young, $17.50, $50.

NOTE. — These items were purchased in March and charged to *Expense*, March 31. You should now charge *Petty Accounts* and credit *Cash*.

Apr. 18

Receive of Charles Conerty for invoice of 30th ult., $52.50.
Cash sales for the day, $4.
Receive of Nassau Hospital on contract of April 2, $1000.

Apr. 19

Pay E. J. Eagan & Co. for invoice of 20th ult., less 2%.

Apr. 20

Buy of Donald & Dwight, terms 2/10 n/30:

1½ doz. saddle seat rockers @ $2.50 each,	$45.		
½ doz. veneer seat rockers @ $3 each,	18.	$63.	
Freight allowed,		1.55	$61.45

Buy of Barnes Brothers, net cash, less 3%:
1 roll #18 blue F tissue paper,
1 roll #19 blue F tissue paper, 76# @ 5½¢, $4.18.

Apr. 21

Pay National Express Co. charges on parcel of paper 4/20, 50¢.

Sell James Wilson, net cash:
1 #104 dining room set complete, $225.
Pay wages of salesmen $50, office help $18, in full to date, $68.
Buy of the *Daily Herald* advertising space, terms net cash, $53.75.

Apr. 23

Receive of Lewis Lincoln for invoice of the 2d inst., $83.
Pay Central Railway weekly freight account, $1.55.
Pay Wright Brothers for invoice of the 3d inst., less 2%.

Apr. 24

Buy of Frazer & Gibbs, hospital furnishings and supplies, n/30, $1800.
Pay the Holdridge Furniture Co. for invoice of the 9th inst., less 1%.
Receive of the Nassau Hospital on contract of April 2, $1000.
Sell Walter Carr on account:

1 #34 W. O. Morris chair, lea. uph.,	$36.	
6 #877 lea. uph. diners, @ $5.50,	33.	
1 #38 ex. table O. E. finish,	42.	$111.

Hicks Garage renders bill for storage and repairs, $16. (Charge *Delivery Expense.*)
Buy of McEvoy & Son 50 gal. gasoline @ 16¢, $8.
Cash sales for the day, $25.75.

Apr. 25

Receive of C. A. McTigue for invoice of 10th inst., $90.
Sell Benjamin Brooks, terms cash $100, balance on account.

1 tap. uph. parlor set 9 pcs.,	$175.	
1 bird's-eye maple bedroom set,	104.	$279.

Cash sales for the day, $10.

Apr. 27

Receive of Benjamin Brooks to apply on invoice 4/25, $100.
Pay Barnes Brothers for invoice of 20th inst., less 3%.

NOTE. — Folio this item as having been posted from the purchase book to the cash book, *i.e.* write in the folio column of the purchase book *C 1*, and in the cash book *P 1*.

Receive of James Wilson for invoice of 21st inst., $225.
Receive of Albert Austin for invoice of 13th inst., $144.

Apr. 28

Pay wages of salesmen, $50; office help, in full to date, $18, $68.
Buy of Goodyear Brothers, cash less 2%, 1 auto tire, $30.
Pay National Express Co., charges on tire, 75¢.

April, 19— PURCHASE

Day	Fol.	Creditors	Terms	Particulars	Inv. No.
3		Wright Brothers	2/20	Dining room chairs	1
9		Holdridge Furniture Co.	1/15 n/30	China closets	2
20		Donald & Dwight	2/10 n/30	Rockers	3
20	C 1	Barnes Brothers (P. A.)	3% Cash	Paper	4
21	C 1	Daily Herald (P. A.)	n/c	Advertising	5
24		Frazer & Gibbs	n/30	Hospital furniture	6
24		McEvoy & Son (P. A.)	n/c	50 gal. gasoline	7
24		Hicks Garage (P. A.)	n/c	Storage and repairs	8
28		Goodyear Brothers (P. A.)	2% Cash	Tire	9
				Journal page 1	

Henry Brewer draws from the business for personal use, $100.
Pay the *Daily Herald* advertising account of 21st inst., $53.75.
Cash sales for the day, $86.

Apr. 30

Pay F. Smith $60, J. Adler $75, wages for month of April, $135. Charge *Delivery Expense*.

Pay petty expenses — postage, car fares, charity, sundries, $5.25.

Pay Donald & Dwight for invoice of 20th inst., less 2%.

Determine the amount of cash you should have on hand. Close all books of original entry. Exhibit the summary of the purchase book in the form of a journal entry. Post and take a trial balance. Prepare a business and financial statement, and close the ledger.

Inventories: Stock of furniture, $13432; delivery equipment, $4325; office furniture, $435; prepaid insurance, $15; cash, $1950.35. Book accounts are considered good.

The following items unpaid should be taken into account: Wolverine Oil Co., for gasoline and lubricants, $100.60; Municipal Lighting Co., lighting bill for the month (estimated), $9.75; salesmen's salaries, $8.33; office help, $3. Goods to the value (cost) of $1235 have not been delivered to the Nassau Hospital on our contract of April 2.

Expense items that represent values consumed in April must be charged to the April account, regardless of the date of settlement.

The Sales account received credit for the Nassau Hospital contract of April 2. Goods undelivered on this contract are, of course, included in

REGISTER (Henry Brewer)

Sundries Cr.		Freight Cr.		Purchases Dr.		Purchase Discount Dr.		Sundries Dr.		Fol.	Sun. Accts. Dr.
100	74	5	76	104	49	2	01				
54		3		56	46		54				
61	45	1	55	61	77	1	23				
4	18						13	4	05		Gen'l Expense
53	75							53	75		Advertising
1800				1800							
8								8			Delivery Exp.
16								16			Delivery Exp.
30							60	29	40		Delivery Exp.
2128	12	10	31	2022	72	4	51	111	20		

the inventory of April 30, thereby decreasing the charge to the *Sales* account by the cost of such goods. This item may be adjusted by debiting *Sales* (April account) and crediting *Sales* (May account) for the amount involved.

During the following month (May) wages and salaries will be handled in a different manner. All payments on account of wages and salaries will be charged to *Pay Roll*. When the books are closed, this account will be transferred to the various expense accounts involved. *Pay Roll* should accordingly be credited in closing the April ledger with the unpaid wages noted on page 166.

May, 19—

The narrative for May is a continuation of the furniture business of Henry Brewer. An upholstery department is to be conducted. It is thought that one experienced man can do all the work at present, besides refinishing goods that come by freight in a slightly damaged condition. An account is to be opened with the upholstery work to determine its cost and earnings. Materials and supplies purchased for this work will be charged to *Upholstery Supplies*. At the end of the month the workman in charge will report the cost of material used, at which time this account will be given credit, and *Repairs and Upholstering* account will be charged. This latter account will also be charged at the end of the month with the cost of labor, and given credit from time to time for what it earns.

The student will assume that the sales book is being kept by the assistant bookkeeper, and that accounts with customers are kept in a separate ledger. To take the place of these accounts in the general ledger,

open an *Accounts Receivable* account. (See page 188.) Do so at once and charge this account with the total of customers' balances, $5165, as shown by your April statement.

Hereafter, as payments are received from customers, credit *Accounts Receivable* by entering the amount in the "Accounts Receivable" column on the left page of the cash book. At the end of the month the total of credit sales will be given you, at which time you should charge *Accounts Receivable* and credit *Sales*. This treatment will require that the left page of the May cash book have special columns as follows: "Accounts Receivable," "Cash Sales," "General Ledger." In opening the May cash book enter the cash balance short.

May 1

Employ J. Rose, experienced upholsterer, at $22 a week.
Pay annual automobile tax, $20.
Cash sales for the day, $35.60.

May 2

Pay Goodyear Brothers for invoice of 28th ult., $30, less 2%.
Buy of Rochester Supply Co., 2/10, upholstery supplies, $187. (Charge *Upholstery Supplies*.)
Pay car fares and petties, $1.60.

May 3

Pay F. Long, agent, rent for May, $100.
Buy of Greene Brass Bed Co. 4/10 n/30:

½ doz. #678 3/ beds @ $18.75 each,	$112.50		
½ doz. #679 4/6 beds @ $20.50 each,	123.	$235.50	
Freight allowed,		6.90	$228.60

May 4

Pay Municipal Lighting Co. April account, $9.75.
Pay the United States Telephone Co. May service, $8.
Pay McEvoy & Sons, invoice 24th ult., $8.
Pay Hicks Garage, invoice 24th ult., $16.
Cash sales for the day, $82.

May 5

Henry Brewer draws cash, $100.
Buy of the Michigan Furniture Co. 3/5 n/30:

½ doz. #101A bookcases @ $14 each,	$84.	
2 doz. #56 D. R. chairs @ $2.40 each,	57.60	
¼ doz. #87 oak rockers @ $8.65 each,	25.95	$167.55
Freight allowed,		18.20

Buy of Saks & Peet, net cash, invoice upholstery supplies, $126.50.
Pay wages, office and store pay roll, $86.33. (Debit *Pay Roll.*)

May 7

Receive of Nassau Hospital on contract of April 2, $2000. (Credit *Accounts Receivable.*)
Buy of the Empire Varnish Co., invoice upholstery materials, $46.75.
Cash sales for the day, $96.75.

May 8

Buy of F. W. & A. Furgeson 3/10 2/30 n/60:

2 doz. felt mattresses #1234 @ $6.60 each,	$158.40	
2 doz. felt mattresses #1230 @ $5.40 each,	129.60	
1 doz. hair mattresses #1240 @ $8.25 each,	99.	$387.

(These prices are f. o. b. shipper's place.)
Pay telegrams and petties, $3.20.
Receive of F. Abbot in full of account, $86.45. (Credit *Accounts Receivable.*)
Receive cash for upholstering and repairs, $22.50. (Credit *Repairs & Upholstering.*)

May 9

Pay Central Railway freight account to date, $38.40.
Buy of Edward Scott, net cash, upholstery supplies, $16.85.
Return to Green, Brass Bed Co.:
2 #679 beds (damaged) @ $20.50, $41.

NOTE. —Set aside 7 lines at the end of your Purchase Book for returned purchases. Since *Purchase Discount* was charged on the 3d instant when these beds were bought with 4% of cost, it must now be credited at the same rate. Debit the Greene Brass Bed Co. with the gross amount; credit *Purchases* with the net amount.

Pay Saks & Peet for invoice of the 5th inst., $126.50.
Cash sales for the day., $5.

May 10

Buy of Donald & Dwight 2/10 n/30:
½ doz. veneer seat rockers @ $3 each, $18.
Freight allowed, .90
Buy of the Hall Manufacturing Co. 4/10 n/30:
1 doz. Hoosier kitchen cabinets @ $18.50 each, $222.
Freight allowed, 16.75.
Pay Michigan Furniture Co. for invoice of the 5th inst., less 3%.

May 11

Receive of Benjamin Brooks balance due on invoice of 26th ult., $179.

Pay postage and petties, $3.75.
Cash sales for the day, $128.40.
Receive cash on upholstery account, $9.50.

May 12

Receive of Nassau Hospital for invoice of 3d inst. (extras), $176.50.
Buy of the Standard Furniture Co. 3/10:

½ doz. oak office desks @ $47.50 each, $285.		
½ doz. oak office desks @ $56 each,	336.	$621.
Freight allowed		36.50 $584.50

Pay Rochester Supply Co. for invoice of the 2d inst., less 2%.
Pay wages, office and store pay roll, $90.

May 14

Pay the Greene Brass Bed Co. for invoice of the 3d inst., less 4%. Deduct from this invoice the returns of 9th inst.
Receive of Mrs. E. W. King on account, $100.

May 15

Charge Donald & Dwight repairs to rockers, material, and labor, $3.60. (Credit *Repairs & Upholstering* account for this item.)
Buy of John Young stationery and office supplies (*Petty* accounts), $6.70.
Receive of the Palmer House in full of account, $268.

May 16

Buy of the Horricks Spring Co., net cash f. o. b.:

1 doz. #34 springs @ $5.50 each, $66.		
1 doz. #67 springs @ $6.25 each,	75.	$141

Pay Central Railway weekly freight account, $58.85.
Receive of G. E. Slocum in full of account, $18.50.

May 17

Receive of the Nassau Hospital on contract of April 2, $2000.
Pay F. W. & A. Furgeson for invoice of the 8th inst., less 3%.
Cash sales for the day, $112.

May 18

Buy of Thatcher Manufacturing Co. 4/10:

½ doz. #2435 refrigerators @ $14.75 each,	$88.50	
½ doz. #2470 refrigerators @ $23 each,	138.	$226.50.
Freight allowed,		12.30

Pay car fares and petties, $1.40.
Return Horricks Spring Co.:
1 #67 spring @ $6.25.

May 19

Pay the Horricks Spring Co. for invoice of the 16th inst., less returns.
Pay wages, office and store pay roll, $90.
Cash sales for the day, $17.40.

May 21

Make the following payments:
Donald & Dwight, invoice of the 10th inst., less 2%.
Hall Manufacturing Co., invoice of the 10th inst., less 4%.
Refund Mary Sheldon on furniture returned, $10.50.

May 22

Pay John Young for invoice of the 15th inst., $6.70.
Cash sales for the day, $88.

May 23

Buy of E. J. Eagan & Co., 2/30 n/60:
6 bedroom sets @ $76, $456.
Freight allowed, 24.75
Pay Standard Furniture Co. invoice of the 12th inst., less 3%.

May 24

Pay petty expenses, $3.65.
Receive of R. S. Kingsley on account, $75.
Pay Frazer & Gibbs for invoice of the 24th ult., $1800.
Hicks Garage renders bill for auto storage and repairs, $12.75.

May 25

Buy of the Holdridge Furniture Co. 1/15 n/30:
Invoice china closets, serving tables, etc., $516.
Freight allowed, $32.20
Pay Hicks Garage, account of the 24th inst., $12.75.
Receive of the Riverside Realty Co. in full of account, $95.

May 26

Receive of Walter Carr for invoice of the 24th ult., $111.
Charge E. J. Eagan & Co. for refinishing bedroom sets, $10.75.
Receive cash for account of upholstering work:
Mrs. Irene Waldo, $18.20
W. S. Phelps, 20.10 $38.30
Pay wages, office help and store pay roll, $90.

May 28

Receive of Nassau Hospital balance on contract of April 2, $875.
Pay car fares and petties, $1.75.

May 29

Pay Thatcher Manufacturing Co. for invoice of the 18th inst., less 4%.
Receive of B. M. Booth in full of account, $40.50.
Cash sales for the day, $28.75.

May 31

Pay Edw. Scott for invoice of May 9, $16.85.
Pay the Wolverine Oil Co. in full of account, $100.60.
Pay F. Smith $60, J. Adler $75, wages for the month of May, $135. (Charge *Delivery Expense.*)
Cash sales for the day, $296.
Pay postage and petties, $5.80.
Charge *Pay Roll* account with $60 unpaid wages (4 days) and distribute wages for the month as follows: Office Expense, $81; Selling Expense, $225; and Repairs and Upholstering, $99. Credit *June Pay Roll* with liability of unpaid wages, $60.
Credit Sales, $2160. Upholstery work on credit, $88. (Debit *Accounts Receivable* for these items.)
Close books of original entry, post and take a trial balance, dated May 31, 19—. Prepare a business and financial statement, and close the ledger.
Inventories: Stock of merchandise, $13406.20; upholstery materials in stock, $296.86; delivery equipment has depreciated 2%, and office furniture, 1%. Reserve 5% of accounts receivable for possible bad debts. Municipal Lighting Co.'s bill for May service, $7.50, unpaid. Wolverine Oil Co.'s account for gasoline and lubricants (estimated), $87.50. Assume that other assets and liabilities are as indicated by the accounts.

Reserves

Selling goods on credit almost always results in a loss from bad debts. The extent of this loss depends upon the credit policy of the business. If, however, under a uniform credit policy covering several years, a certain per cent of customers' debts has proved worthless, it is reasonable to assume that, under a similar credit policy, approximately the same losses will result. If we had the foresight to tell which of our customers will fail to meet their obligations, losses might be prevented. But, since we are certain that losses will occur, it is our duty to anticipate those losses as nearly as possible and charge them to the period responsible for the credits involved. This may be done by charging *Profit & Loss* and crediting *Reserve*

for Bad Debts with such an amount as our experience justifies us in believing we shall lose on outstanding customers' debts. In the foregoing exercise this figure is placed arbitrarily at 5%. The book value of these debts we know to be in excess of their real value, and the reserve prevents overstating our profit. Reverting to the fundamental law of debit and credit; namely, that things owned are debtors and the owners thereof creditors, if, for practical reasons, we are unable to show decreases in the value of things owned when such decreases actually exist, we accomplish their reduction by setting up on the opposite side a dummy owner, who is later charged with actual shrinkage, and whose "property right" is thereby canceled. This dummy owner we call a "Reserve."

As losses occur from bad debts, they are charged to *Reserve for Bad Debts;* and if subsequent events show that we have reserved too much or too little, the error may be rectified by decreasing or increasing the amount of the reserve.

In the same way, shrinkage from discounts, depreciation, etc., may be anticipated, *and the loss charged to the period in which it really occurs*, by setting up a reserve.

The function of the Reserve account, then, is to properly allocate losses that each fiscal period may be made accountable for its own shortcomings.

Six-column Balance Sheet

The following form of statement is called the "six-column balance sheet." This is a convenient way of tabulating results and may in some cases answer every purpose. It is also used as a "working paper" by auditors when auditing the books of business concerns.

SIX-COLUMN BALANCE SHEET

	Dr.		Cr.		Losses		Profits		Assets		Liabilities	
E. C. Sloane, Proprietor	200		4737	62								
Cash	356	45							356	45		
Notes Receivable	600								600			
Notes Payable			350								350	
Merchandise	3650	75					1536	45	* *5187*	*20*		
Office Furniture	325	60			25	60			* *300*			
Expense	800	40			750	40			* *50*			
J. W. White	275	20							275	20		
David Jacobs			1120	78							1120	78
	6208	40	6208	40	776		1536	45	6768	85	1470	78
E. C. Sloane, Net Profit					760	45						
					1536	45	1536	45				
E. C. Sloane, Net Investment			4537.62									
" " " Profit			760.45									
" " Capital											5298	07
									6768	85	6768	85

* Amount is entered in red ink.

In the business illustrated above the trading activities — stock of goods, purchases, and sales — have been kept under one head. If the *Merchandise* account were broken up, as it should be, this form of statement would not show the cost and selling price of goods sold, and the resultant gross profit. Moreover, the method of expression is much too technical to be readily understood by one not familiar with accounting procedure. These defects seriously impair the value of this form for practical purposes.

EXERCISES IN PREPARING STATEMENTS

1. From the following data prepare in report form a trading and profit and loss statement and a statement of assets and liabilities. Assume that the business covers a period of six months, ending on the current date.

Cash on deposit, $51.25; personal accounts receivable, $415.60; accounts payable, $365; notes payable, $250; merchandise inventory, at the beginning of the period, $4465; purchases, $3467.82; sales, $4586.17; freight and express inward, $93.42; returned purchases, $167.85; purchase discount,

$53.27; sales discount, $23.44; interest on notes payable, $33.60; selling expense, $218.45; salaries, $120; general expense, $315.12; office furniture has cost $125 and depreciated 6%; losses from bad debts, $76.84. The proprietor, Henry L. O'Day invested $4188.65 and has drawn out $205.40. The stock of merchandise on hand at date is inventoried at cost, $4189.79, less 10%.

2. For the period of three months, ended Dec. 31, 19—, the trading and profit and loss accounts in the ledger of Owen Redfield show the following balances:

Stock of Goods, Sept. 30, 19—	10345.20	
Sales		5765.41
Returned Sales	92.64	
Purchases	2126.90	
Inward Freight (on purchases)	112.85	
Purchase Discount		46.82
Selling Expense	238.40	
Office Expense	216.50	
Interest & Discount		10.20
Insurance & Taxes	16.50	

Inventories Dec. 31, 19—: stock of goods, $7713.76.

Prepare a trading, and profit and loss account.

If Owen Redfield's capital Sept. 30 was $23245, what is his capital Dec. 31? 2. What is the cost of goods sold? 3. The goods were sold at what per cent above cost? 4. What rate per cent of profit does Redfield's investment yield? 5. How many times during the year would Redfield turn over his stock?

3. From the following trial balance and inventories, prepare a six-column balance sheet (see form, page 176). The business which this trial balance represents covers a period of one month.

TRIAL BALANCE, MAY 31, 19—

Thomas Cheshire, Proprietor		8626.
Merchandise	4158.50	1218.45
Furniture & Fixtures	732.50	
Notes Payable	618.	923.
Interest & Discount	5.38	
Mdse. Discount	4.93	2.97
Profit & Loss	22.40	
Cash	6454.24	986.66
Expense	141.13	
C. W. King		580.
Albert Perkins	200.	

Inventories: stock of goods, $3465; furniture and fixtures, $700; unconsumed articles charged to expense, $25.30.

Criticize the arrangement of the accounts in the above trial balance.

4. The following trial balance is taken from the books of Jackson & Verity, partners, Dec. 31, 19—.

TRIAL BALANCE, DEC. 31, 19—

Andrew Jackson			40000
William Verity			20000
Real Estate	35000		
Purchases	63000		
Sales			95000
Stock of Merchandise (July 1, 19—)	15000		
Salaries	6000		
Traveling Expenses (Salesmen)	2500		
Interest	600		
Stationery & Printing	1200		
Rents & Taxes	3500		
Mdse. Discount	1250		
Insurance (one year from July 1, 19—)	1150		
Inward Freight	1500		
General Expenses	600		
Bank Overdraft			5000
Trade Creditors			4000
Accounts Receivable	25000		
Cash on Hand	700		
Loan Account	7000		
	164000		164000

Stock of merchandise Dec. 31, 19—, $23000. Depreciate real estate 10%, and allow 3% on book accounts for possible bad debts. Take unexpired insurance into account. Allow interest on Capital at 6% per annum and divide the profit or loss equally. Prepare the business and financial statement.

Set up and close the following accounts: Stock of Merchandise, Real Estate, Insurance.

5. The following trial balance covers a period of six months ended June 30, 19—. Use the report form of statement and show (1) the cost of goods sold, (2) net sales, (3) gross profit, (4) net profit, and (5) present capital.

TRIAL BALANCE, JUNE 30, 19—

E. P. Tracy, Capital		6760.76
E. P. Tracy, Private	612.50	

Cash	314.80	
Notes Receivable	150.	
Stock of Merchandise (Jan. 1, 19—)	6540.25	
Sales		5480.76
Returned Sales	112.15	
Purchases	4211.61	
Inward Freight	135.16	
Salaries	98.50	
General Expense	512.30	
Interest on Notes Receivable		38.90
Purchase Discount		87.95
John W. Way	312.83	
Nelson Sherwood	154.72	
Victor Degroot & Co.		786.45

Inventories: merchandise, $6844.12; unpaid salaries, $11.50; unpaid expense items, $17.85.

6. The following data are taken from the books of F. R. Hildreth: Jan. 1, 19—, stock of goods, $24217.89; Dec. 31, 19— (same year), stock of goods, $23712.41; purchases during the year, $37512.20; sales, $58922.07, of which goods costing $1890 have not been delivered; returned sales, $1275.32; operating expenses, $6758.47; insurance and taxes, $314.50; outward freight, $615.50; interest on notes payable, $213.14; commission earned, $1253.49; reserve for bad debts, $850. Provide for an income tax of 1% of net profit, less the legal exemption of $3000.

Set up and close the following accounts: Inventory, Sales, Profit & Loss.

COLUMNAR CASH BOOKS

Three considerations should determine the form of a cash book: (1) convenience in auditing the cash account; (2) convenience in posting; (3) a means of summarizing and testing the accuracy of the record and checking irregularities in the money account.

A prudent business man will require a voucher for every dollar of cash paid, and a memorandum of each receipt given for cash received. Items in the cash book may then be compared from time to time with the vouchers, as a check upon theft and other irregularities. Another valuable means of checking error or dishonesty is to operate the cash account in such a way that the bank's record of deposits and withdrawals will correspond, in the aggregate at least, with the cash record. All cash received should be deposited. Currency should be drawn from time to time as needed for petty cash by check. These important purposes can be accomplished only by running columns on the right and left pages that record respectively actual disbursements and receipts of cash. Convenience in posting is always a consideration in designing any book of original entry.

The advantage gained by the use of columnar books is to some extent offset by errors resulting from entering amounts in the wrong columns; and a columnar book that admits of a trial balance test as a check upon such errors has a marked advantage over one that can be tested only in the final trial balance. Each division of the book of original entry — journal, sales book, purchase book, cash received, cash paid, etc. — presents an equality of debits and credits, which affords a means of testing the accuracy of each group of entries if the books are properly designed.

Exercise 22

The following series of narratives is intended to make the student familiar with different forms of cash books employed in connection with auxiliary ledgers and controlling accounts in the general ledger. Form 1 meets the requirements laid down in the preceding paragraphs, although some accountants prefer the "Net Cash" and "General Ledger" columns transposed. No one form can be adapted to all conditions; and the student should become familiar with as many different expedients as possible. He should, accordingly, rule the prescribed forms, make the entries, summarize and close the cash book called for in each exercise.

It is not thought necessary to repeat here the date, folio, account and particular columns, as these usually occupy the same relative positions. The folio column is sometimes placed next to the amount column for convenience in posting, and when cash vouchers are numbered and filed numerically, a "Voucher No." column is included on the right page.

Form 1

Left page:			
Net Cash	Sales Discount	Accounts Receivable	General Ledger
Right page:			
Net Cash	Purchase Discount	Accounts Payable	General Ledger

In a business involving daily cash sales to transient customers, this form might include a "Sales" column after Accounts Receivable; and if no petty cash book were kept, or if the expense items paid by check justified it, an "Expense" column might be included on the right side after Accounts Payable.

Compute all interest at 6%, unless otherwise directed.

Narrative

Oct. 1, 19—. Balance, cash on hand, $765.45. (This item should be entered short. See model, page 182.)

2. Receive of O. O. Brackett for invoice of the 23d ult., $365, less 3%.

4. Pay office salaries for the week, $125.

6. Pay Willard & Judd for our (student's) note due to-day with interest. Face of note, $250; interest 3 months at 7%.

7. Discount Harold McVeigh's 60-day note in our favor, dated Aug. 15, for $460.

NOTE. — Enter the discount item in the "Sales Discount" column in *red*, or mark it with an "*I*" in the space to the left, and debit *Interest & Discount* for the amount when you close the cash book. (See model, page 182.)

8. Pay Strauss & Co. for invoice of the 29th ult., $218.50, less 2%.

9. Draw check for petty cash, $25. (Charge *Petty Cash* or *Currency*.)

10. Receive of J. L. Wagner his check for $200, to apply on invoice of the 31st ult. for $500, on terms of 2% 10 days, net 30 days.

11. Pay Kent & Caldwell for invoice of 25th ult., due to-day, $950.

14. Harold McVeigh's note of Aug. 15 due to-day is protested for non-payment. Protest fees, $2.50.

14. Discount your own 30-day note at the Portland National Bank for $500 and receive credit for the proceeds. Compute the discount at 7%. (See note to transaction of the 7th inst.)

15. The proprietor (student) draws $50 for personal use.

Foot all columns and ascertain the cash balance. State the summary in the form of a journal entry, as shown on next page.

Date		Fol.	Accounts Cr.	Particulars	Net Cash	Sales Dis.	Accts. Rec.	Gen. Led.
19- Oct.	1		Balance	brot. down 765.45				
	2		O. O. Bracket	inv. of 23 ult., less 3%	354 05	10 95	365	
	7		Notes Receivable	A. McVeigh's note, disct. 6%	459 46	8 54		460
	10		J. L. Wagner	apply on inv. 31st less 2%	200	4 08	204 08	
	14		Notes Payable	30 day note disct. @ 7%	497 08	2 92		500
						8 3 46		
			Journal page 76		1510 59	15 03	569 08	960
	15		Balance Oct. 1		765 45			
					2276 04			
19- Oct.	16		Balance	brot. down 195.03				

15

Cash
Sales Discount
Interest & Discount
Accounts Receivable
√ General Ledger Accounts (posted)

15

√ Accounts Payable
General Ledger Accounts (posted)
Cash
Purchase Discount

Form 2

Left page:

Merchandise Discount, Accounts Receivable, Sales. Net Cash.

Right page:

Merchandise Discount, Accounts Payable, Net Cash.

Date		Fol.	Accounts Dr.	Particulars	Net Cash		Purch. Dis.		Accts. Pay.		Gen. Led.	
Oct.	4		Expense	office payroll	125						125	
	6		Notes Payable	note Willard & Judd due	250						250	
	6		Int. & Disc.	on above note - 2 mo. 7%	4	38					4	38
	8		Strauss & Co.	inv. 29th ult. less 2%	214	13	4	37	218	50		
	9		Currency	check - petty cash	25						25	
	11		Kent & Caldwell	inv. 25th ult. due	950				950			
	14		Accts. Receivable	McVeigh's note protested	462	50					462	50
			Harold McVeigh	$460.00 protest fees 2.50								
	15		Wm. McAndrew	private drawings	50						50	
			Journal - page 76		2081	01	4	37	1168	50	916	88
	15		Balance	cash on hand	195	03						
					2276	04						

Narrative

Nov. 2, 19—. Balance on deposit in Spokane National Bank, $1235.
Cash sales for the day, $345.

3. Draw check for petty cash fund, $50.

NOTE. — Make no entry for this check at this time. When the cash book is closed, the results of the petty cash book will be brought into and posted from the main cash book. Compare this method with the one employed in form 1, page 181.

4. Pay E. H. May, agent, November rent, $200.
Cash sales 3d and 4th, $284.

5. Prepay our 2-months' note, dated Oct. 3, in favor of L. M. Slocum for $325, with interest at 6% per annum.
Cash sales for the day, $98.65.

6. Receive of the Bush Foundry Co. for invoice of the 7th ult., $625, less 3%.

7. Pay cash for office furniture, Horricks Desk Co., $165.
Cash sales 6th and 7th, $485.

9. Pay F. D. King & Son for invoice of the 30th ult., $327.50.

10. Pay A. Adelberg & Brother for invoice of the 31st ult., $543, less 4%.
Cash sales 9th and 10th, $235.70.

11. Draw a 30-day draft on Wilcox & Co., San Francisco, for $460, and discount the same at your bank, receiving credit for the proceeds.

NOTE. — This transaction would call for two entries: First, debit Notes Receivable and credit Wilcox & Co. in the note book or journal; second, debit Cash and Interest & Discount, and credit Notes Receivable in the cash book. Enter the Interest & Discount item in the Sales Discount column in red. See note to transaction of the 7th, form 1.

12. Draw check for pay roll, $1150. (Debit *Pay Roll.*)
Cash sales 11th and 12th, $245.15.
14. Pay the *Ladies' Home Journal* advertising account, $600.
15. Receive of Frank Smith for invoice of the 5th inst., $416, less 2%.
Cash sales 14th and 15th, $165.

Bring into the main cash book the following summary of the petty cash book: Stationery, $3.75; postage, $4.50; telegrams, $2.65; car fares, $2.40; office expense, $6.30.

Close the cash book in preparation for posting.

Form 3

Left page:

Accounts Receivable		Mdse. Discount	General

Right page:

Accounts Payable	Mdse. Discount	Expense	General

Narrative

Dec. 2, 19—. Balance, cash on deposit, $1250; currency on hand, $18.50, $1268.50.

3. Pay for postage, $5.
6. Receive of John McAndrew in full of account, $450.
6. Pay for office supplies, B. A. Gray, $10.50.
7. Pay George Graber for cleaning office, $3.75.
9. Receive of Amos Whitney check for $225 to apply on invoice of Nov. 30. Allow 2% discount.
10. Pay John Duffy & Co. $450, one half of invoice of the 1st inst. Take 3% discount.
11. Receive of William Lord in settlement of his note due to-day with interest. Face of note, $365. Interest 3 months at 6%.
13. Prepay our 30-day interest-bearing note of Nov. 28, for $850.
14. Receive of A. W. Manning for invoice of the 3d inst., $212.50, less 4%.
15. Pay office salaries to date, $125.
15. Pay telegrams and petties, $3.65.
15. Pay the Great Northern Railway freight account to date, $18.75.

15. Draw a sight draft on Arnold West for $200, and receive credit for the same at your bank, less collection and exchange, $1.

Ascertain the cash balance and close the cash book.

Form 4

Left page:

Mdse. Discount	Accounts Receivable		General

Right page:

Mdse. Discount	Accounts Payable	Expense	General

Narrative

June 1, 19—. L. K. Perkins begins business with a cash investment of $5000.

1. Pay Frederick Frankfort June rent of premises, $175.
2. Buy of Mullen & Buckley, for cash, office furniture, $165.
2. Pay postage and petties, $7.65.
3. Pay Robert Hill & Co. for invoice of the 1st inst., $675.
4. Pay Mills & Manning for invoice of the 1st inst., $860.
6. Pay June telephone service, Bell Telephone Co., $10.
7. L. K. Perkins makes an additional investment, $1000.
8. L. K. Perkins discounts his 3-months' note for $1000, at the Tacoma National Bank, at 7%, and pays the discount in cash.

NOTE. — In practice the bank might deduct three months' interest. There is no reason, however, why interest for the exact number of days should not be deducted. The difference, 39¢, in the result certainly justifies the additional labor involved.

9. Buy for cash of the Western Sales Stables, 1 team dray horses, $600.
10. Receive of Willis Ogden for invoice of 4th inst., $165, less 2%.
12. Pay Herbert L. Smith & Brother for invoice of 2d inst., $1000, less 3%.
13. Pay telegrams, car fares, and petties, $9.60.
14. Discount Henry Newcomb's 30-day note, dated June 8, for $380, at the Tacoma National Bank, and receive credit for the proceeds. Pay the discount in cash.
15. Receive of Gilbert Hopkins for invoice of the 10th inst., $416.90, less 3%.
15. Pay wages June 1 to 15, $85.
15. Pay the *Tacoma Register* advertising account, $64.
15. Pay legal expenses, Burke & Kirlicks, $15.
15. Pay the Cortland Wagon Co. for bill of the 9th inst., $156.

Ascertain the cash balance and close the cash book.

Form 5

In a wholesale trading business three ledgers are operated: a general ledger, and auxiliary ledgers for the accounts of customers and trade creditors. (See Auxiliary Ledgers, page 187.) Purchase and sales discounts are involved. All cash is banked, and a petty cash book is operated. A cash account is kept in the general ledger.

(*a*) Rule a main cash book suited to the needs of this business, having regard for the following considerations:

(1) Convenience in auditing the cash account.
(2) Convenience in summarizing and proving cash.
(3) Convenience in posting the cash book.

(*b*) Enter the following transactions in the book as called for in (*a*).

Narrative

Dec. 1, 19—. Balance, cash in bank, $675.89; petty cash fund, $30.

2. Pay Wilbur Smith for invoice of the 23d ult., $213.50, less 1½%.

3. Discount at the People's Bank, A. L. Burt's 60-day interest-bearing note, dated Nov. 17, 19—, for $346.50, and receive credit for the proceeds.

4. Pay Haynes & Co., agents, Dec. rent of business premises, $150.

4. Receive of Curtis & Co., their check for $300, to apply on invoice of 26th ult., $456.84, on terms of 2/10 n/30.

5. Draw a 30-day draft on McGraw & Smith for $225, and discount it at the People's Bank, receiving credit for the proceeds.

5. Prepay our 2-months' note of $200, favor Andrews Brothers. Date of note Nov. 23, 19—.

6. Draw check for petty cash vouchers, $27.40, and distribute the amount as follows: Office expense, $13.50; stable expense, $12; selling expense, $1.90.

(*c*) Summarize and close the cash book.

AUXILIARY LEDGERS

For the same reason that we have grouped related facts to construct accounts, it becomes necessary to group related accounts to form summary or controlling accounts. Many trading concerns have from one thousand to ten thousand or more open accounts with customers. Obviously so many could not be conveniently kept in one ledger with the general accounts. Moreover, a large accounting system calls for a large force of bookkeepers, and consequent division of labor, which necessitates ledger subdivisions.

Customers' Ledger

Customers' ledgers vary in form with the nature and extent of the business involved, as well as with the permanent or transient character of its customers' accounts. Where the personnel of such accounts is constantly changing, as a result of securing new customers and losing old ones, the ordinary form of bound ledger is not as satisfactory as are some of the other forms. The loose-leaf customers' ledger, which consists of detached leaves locked together by means of a mechanical device, is in very general use. This device enables the bookkeeper to extract leaves containing " dead " accounts, and to insert new ones as occasion requires.

Customers' accounts are often kept on cards of a convenient size and ruling. These cards are filed in alphabetic or numeric order, as their number and extent determine. But while accounts in large numbers are conveniently operated in this way, there is an objection to the card system, viz., unless these detached fragments are carefully filed and handled by a competent person, they become misplaced and sometimes lost.

Controlling Accounts

Manifestly if any number of accounts are taken out of the general ledger, the equilibrium of that ledger is destroyed, and it can be restored only by restoring the items segregated, or their equivalent. This is accomplished by posting to the general ledger the *totals* of items posted to the auxiliary ledger.

The general ledger account, which summarizes items posted to the customers' ledger, is called variously, " Accounts Receivable," " Sales Ledger Account," and "Customers' Controlling Account." Any one of these titles indicates the function of the account, but the first one is in most general use, and, for the sake of uniformity, this title will be employed in this work.

Analyzing a customer's account, we find that it is charged with: (1) credit sales; (2) cash reimbursements for returns and allowances; (3) cash advances to take up matured paper (previously discounted), which the customer finds himself unable to meet and which sometimes includes protest fees; (4) a customer's notes or acceptances held by you and dishonored either at maturity, or (by implication) on suspension of payment by, or insolvency of, the customer. A customer receives credit for: (1) cash received from him on account plus discount allowed, if any; (2) his promissory notes and acceptances in our favor; (3) returns, allowances, and rebates; and (4) items charged to *Bad Debts* account or to *Profit & Loss*.

It follows, then, that the customers' controlling account in the general ledger would be made up of items from the following sources:

ACCOUNTS RECEIVABLE

(1) Total of sales book.	(1) Total of "Accts. Rec." column . left page of cash book.
(2) and (3) Credit side of cash book.	(2) Customers' bill book, or credit side of journal.
(4) Debit side of journal.	(3) Returned sales book, or credit side of journal.
	(4) Credit side of journal.

While the foregoing analysis covers practically all cases, the chief sources of this account are the sales book, the left page of the cash book, and, if settlements are made by notes or acceptances, the credit side of the journal. There is always a special column on the left page of the cash book for items belonging to *Accounts Receivable*, and such a column may be ruled on the right page of the cash book, on the right or both sides of the journal, or wherever the items to be grouped are sufficiently numerous to justify it.

Creditors' Ledger

For the sake of clearness, the customers' ledger and the content and source of its controlling account have been described as illustrating the auxiliary ledger and its relation to the general ledger. For the same purpose, and with equal facility, trade creditors' accounts may be segregated and kept in loose-leaf volumes or on cards. The use of a creditors' ledger would necessitate a creditors' controlling account in the general ledger. This account is variously called "Accounts Payable," "Purchase Ledger Account," and "Creditors' Controlling Account." These all are descriptive titles, but the name in most general use is *Accounts Payable*. The student, however, should become familiar with the different names employed in accountkeeping to designate the same thing, as he will encounter different names in examinations set by different examiners, and in business life.

Since the *Accounts Payable* account should be charged and credited whenever a trade creditor is charged and credited, the sources of the various items comprising this account should be understood. They are as follows:

ACCOUNTS PAYABLE

(1) Total of "Accts. Pay." column, right page of cash book, which includes cash paid and discount allowed.	(1) Total of the purchase book.
(2) Creditors' note book, or left side of journal.	(2) Left page of cash book (cash receipts from creditors for returns or allowances).
(3) Returned purchase book, or left side of journal.	(3) Credit side of journal (for items not included in (1) and (2) which might be journalized).

In a business where settlements with creditors are frequently made by issuing to them your notes or accepting their drafts, a note book should be kept. In the absence of such a book as a principal book, a special "Accounts Payable Dr." column could be run conveniently in the journal. Such a column is sometimes justified on the left page of the cash book. The frequency of items belonging to one account always determines the practicability of a special column.

An auxiliary ledger may accordingly be operated for any related group of accounts, and when so operated, calls for a corresponding controlling account in the general ledger. Shipment and consignment accounts, detailed expense, and manufacturing cost accounts, all lend themselves readily to this treatment.

Advantages of the Controlling Account

The controlling account (1) greatly reduces and simplifies the trial balance, by eliminating the details of accounts which lead to the same or related conclusions; (2) it serves as a check upon errors in auxiliary ledgers, the presumption being that the controlling account, as a part of the trial balance, is correct, and auxiliary ledgers should accordingly be brought into agreement; and (3) it brings all the factors of the trial balance within the covers of one volume, and enables the responsible head of the accounting department to check the work of subordinates, and to have exclusive knowledge of matters of a confidential nature.

In the next exercise four books of original entry are to be used; namely, sales book, purchase book, cash book, and a journal. Two ledgers will be operated — general and customers'.

A customers' controlling account — *Accounts Receivable* — will be operated in the general ledger. Whenever a trial balance is taken, the auxiliary ledger must be brought into agreement with its controlling account. The names of customers will not appear in the trial balance, but these

items will be represented in the trial balance by the *Accounts Receivable* account. Study carefully the source of items comprising this account (see pages 187 and 188).

Review Questions

1. What is the function of an auxiliary ledger? 2. Show how the use of an auxiliary ledger affects (*a*) the trial balance, (*b*) rulings in books of original entry. 3. What classes of accounts are conveniently kept in auxiliary ledgers? 4. What is a controlling account? 5. Give in detail the sources of items comprising (*a*) the accounts receivable account, (*b*) the accounts payable account. 6. Illustrate, by means of a statement and using data of your own invention, how you would show an agreement between the accounts in an auxiliary ledger and its controlling account.

7. Under what circumstances would you use special columns in books of original entry? 8. (*a*) Rule a special column journal for a business whose purchases and sales are largely settled by notes, assuming that customers' and trade creditors' ledgers are kept. (*b*) Illustrate the use of this journal by means of six different entries. Close the journal.

9. Define a promissory note. A New York draft. A check. 10. Define and illustrate four kinds of indorsements. 11. What indorsement would you use in (*a*) transferring a check to your bank for deposit, (*b*) sending a paper, payable to your order, through the mail or by messenger? Why? 12. What is the effect of a blank indorsement? 13. Describe a convenient and economical method of making remittances so that the remitter may have a receipt for the money paid. 14. To what extent may local checks be used for making remittances? 15. To what form of exchange is a creditor entitled in satisfaction of a debt?

BUSINESS PRACTICE AND PROCEDURE

Practically all data in a business office have their origin in some form of business document. Writing, interpreting, and properly disposing of these documents largely constitute the office assistants' work.

The following exercise is intended to give the student practice in handling and interpreting the more common forms that arise in office routine. The benefit derived from this study will be in proportion to the thoroughness with which the student does the work prescribed. And in order that he may approach the exercise with some understanding of its main features, the following preliminary discussion should be carefully studied.

Consignment Goods

The business illustrated differs in one important particular from those we have previously studied. The stock in trade of Samuel Holbrook & Co. is carpets, rugs, linoleums, and mattings. Aside from carrying a stock of these commodities, they are selling agents of the Burt Carpet Co., manufacturers of axminster, chenille, and tapestry rugs and carpets. Orders received for any of these lines are passed to and shipped from the factory. The shipment is reported back to us on a form, called a "consignment invoice," in duplicate. We enter prices on this form, make extensions and prepare the customer's invoice. At the same time we charge the customer and credit *Consignments*, for which a special column is provided in the sales book. The consignor gives us the same terms of settlement that we offer the customer. Our compensation for selling the goods of the Burt Carpet Co. is a commission of 6%, which is computed on the invoice amount, less the discount offered. Whenever we make a remittance to cover the proceeds of a consignment sale, we debit the consignment for the invoice amount and credit *Merchandise Discount*, *Commission*, and *Cash*. Detailed instructions will be given as transactions arise until the student becomes familiar with the procedure.

Books to be Used

The journal, main cash book, petty cash sheet, sales book, and purchase journal will be used as principal books, and the note book, bank pass book, and check book, as supplementary records. The accounts of customers will be kept in a separate customers' ledger; all other accounts, in the main ledger.

The journal differs in no respect from those we have hitherto used. In it are recorded all transactions not otherwise disposed of.

The purchase journal will contain all merchandise purchases, as well as all purchases of supplies for which an invoice is rendered, such as shipping cases, horse feed, traffic supplies, office furniture, etc. Two money columns are provided — " Mdse. Purchases," and " Sundries." Items other than merchandise are entered in the " Sundries " column, and posted to the various accounts charged.

The sales book differs in no respect from those with which you are familiar, except that an additional column for consignment sales is added. Extend all sales of consignment goods to this column, and post the *total* to the credit of *Consignments* account in the general ledger.

An eight-column cash book will be employed. The net cash columns should record actual amounts of cash received or paid. The " Accounts Receivable " column will assemble amounts for which customers are credited — the net cash plus the discount, if any — on account of their cash payments. All amounts to be posted to the general ledger are entered in the general ledger column. This includes items for which trade creditors are charged on account of cash remittances. In recording remittances of the proceeds of account sales, four columns are involved; namely, " Net Cash," " Purchase Discount," " Commission " and " General Ledger."

The Petty Cash Record

It is necessary in a business of any size to remove from the main cash book the record of numerous currency payments of small amounts. These payments are made on behalf of, and must be charged to, various departments of the business. The method adopted in this exercise is (1) to deposit in the bank *all* cash items received; (2) to draw by check an amount sufficient to cover petty disbursements for one month; (3) to charge the petty cashier with this amount in the petty cash record, but to make no entry at the time in the main cash book; (4) to require the petty cashier to submit vouchers at the end of the month, initialed by one of the partners, for all disbursements. He is then given another check in exchange for the vouchers, which restores the fund, called " imprest fund," to its original capital. When the petty cash record is closed for the month, the results are brought into the main cash book, and are posted from that book to the general ledger.

The advantages of this plan should be apparent. All cash is banked, so that the bank deposits will correspond in total with cash received, while the main cash book and the bank pass book must coincide in the matter of payments, when all checks issued are recorded in both books. Embezzlement usually begins with misappropriations of postage, car fares, and the like, and an office that does not have a check upon petty disbursements is needlessly tempting its employees and opening the way to loss from petty

theft. Moreover, from an accounting standpoint, this method clears the main cash book of numerous small items, thereby reducing its volume, and summarizes these items so that the totals only may be carried into the general ledger.

The Note Book

For the reason that notes and acceptances payable must be met promptly at maturity to avoid the embarrassment and expense of protest, and that receivables of this character must also be attended to promptly at maturity to prevent loss, the record of such promises given and received should be complete in every detail. The note book is designed to record the particulars of negotiable paper issued or received by us. The maturity of paper is shown in such a way as to be a daily reminder of items that need attention. The note book is used in this exercise merely as an auxiliary, or memorandum, record, and all transactions involving the issue or receipt of time paper will be journalized as usual. The only explanation necessary in the journal, however, is reference to the page of the note book on which the details are recorded.

The Bank Account

No business of importance is conducted nowadays without the use of banking conveniences. As a means of collecting checks, drafts, and notes that a business will receive from its patrons, as a means of remitting money by the use of checks and drafts, and as a safe depository, its services are indispensable.

Banks will not do business with strangers. They must know who you are, and they must know the signature by which the payment of your money is authorized. In a partnership business either partner may sign or indorse the firm's drafts, checks, or notes. Another person may obtain authority to sign and indorse such paper by means of what is called a "power of attorney." Accordingly, if you wish to open a bank account, you should be, or become, known to the bank's officials, and should leave with it a facsimile of the signature that will go on your checks. If you are acting as the agent of another, those whom you represent should give you a power of attorney, which will set forth in detail the things you are authorized to do. Banks ordinarily provide blank forms to be used for this purpose.

Three records are made in connection with bank deposits and withdrawals; namely, the deposit ticket, the bank pass book, and the check book.

Deposit Ticket

The deposit ticket shows the name of the depositor, the date, amount, and character of your deposit. When you are ready to make a deposit, indorse all checks in full (see Indorsements, page 196), classify and properly

arrange specie, currency, checks, and drafts for the teller's convenience in counting and checking. List the different items separately on your deposit ticket, and strike the total. Present these to the receiving teller, together with your pass book, and receive credit.

Pass Book

The pass book is the bank's receipt for your deposits and record of your drawings, and is usually kept in your possession. In this book you receive credit for deposits and collections. As often as once a month the pass book should be left at the bank to be "written up." At this time the bank will charge you with all checks drawn against your deposit, which are at the time returned to the bank, with all notes and acceptances which you have authorized them to pay, and with interest and collection[1] charges, if there are any. The canceled checks, notes, and drafts so charged against your account, together with a list of the amounts involved, will be returned to you with your pass book, which will now show the amount remaining to your credit, or your balance.

Proving Cash

As soon as the pass book is received, having been balanced to date, you should "reconcile" the various records that have to do with the receipt and payment of money. The following formula is suggested as a means of reconciling the various records:

Memorandum

Bank balance at beginning (give date),		$1200.
Receipts deposited,		2460.90
		$3660.90
Vouchers returned, per pass book,	$1276.80	
Checks outstanding,	474.	
Total payments,		1750.80
Bank balance (give date), per check book,		$1910.10
Imprest fund,		50.
Cash balance, per cash book,		1960.10

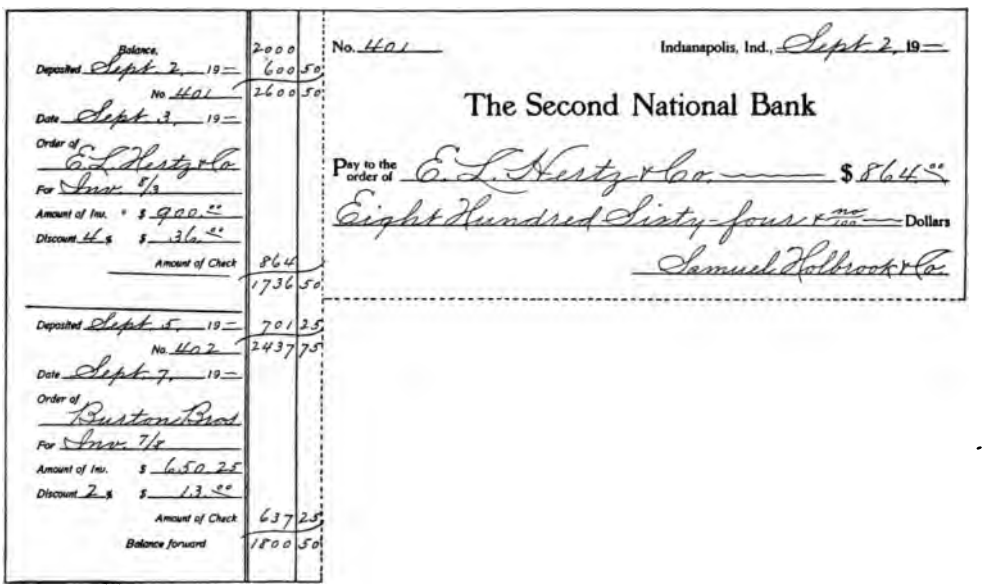
First, arrange your checks in numerical order. (All checks should be numbered when drawn.) Compare these canceled checks with the check book stub, ticking each item as you pass it. In the same way verify items

[1] There are at present three different methods in operation in different banks for handling collection items. In some cases the customer pays the collection charges in currency at the time the paper on which such charges accrue is offered for deposit or collection. Another method is to charge the customer exchange when the deposit is made. A third method is to render a statement of collection charges monthly, or as often as the pass book is balanced.

not vouched for by a check. When you are through, the unticked items, if there are any, will show checks outstanding; that is, checks not yet returned to the bank and not charged against you in the pass book. Add the amount of checks outstanding to the vouchers returned, and the result should agree with the balance shown by the check book, assuming, of course, that all items have been included, such as interest and collection charges for which there may be no voucher. Having regard for the office cash fund (imprest fund), the bank balance should agree with the cash balance as shown by the main cash book.

Check Book

The check book counterfoil, or stub, should be a complete record of your transactions with the bank kept by yourself, and should show at all times the amount to your credit in the bank. This record should contain, therefore, not only all deposits and the amount of all checks, but the proceeds of all notes discounted at, or collected by, the bank, as well as all notes and drafts which the bank has paid on your account, and collection charges and interest items, if there are any. In making this record you have only to keep in mind that charges against the bank are added to your bank balance, while all payments by the bank for your account are subtracted therefrom. See illustration following:


Balance 2000
Deposited Sept. 2, 19— 600 50
2600 50
No. 401
Date Sept. 3, 19—
Order of E. L. Hertz & Co.
For Inv. 5/2
Amount of Inv. $ 900.00
Discount 4% $ 36.00
Amount of Check 864
1736 50
Deposited Sept. 5, 19— 701 25
2437 75
No. 402
Date Sept. 7, 19—
Order of Burton Bros.
For Inv. 7/6
Amount of Inv. $ 650.25
Discount 2% $ 13.00
Amount of Check 637 25
Balance forward 1800 50

No. 401 Indianapolis, Ind., Sept. 2, 19—

The Second National Bank

Pay to the order of E. L. Hertz & Co. $ 864.00

Eight Hundred Sixty-four 00/100 Dollars

Samuel Holbrook & Co.

The check book is opened by entering the bank balance on the stub at the top of page 1. Do not neglect to carry forward results from the bottom of the page to the top of the next page.

Writing Negotiable Paper

The utmost care should be exercised in writing checks, drafts and notes. It is not so much a question of your ability to write one of these papers correctly by giving it your undivided attention; you should repeat the operation until accuracy and correct form become habitual. Do not leave a blank space either before or after the amount. Adopt a plain signature -- one that can be easily read. The notion that illegible signatures are less easily imitated by forgers is erroneous. Fill in the stub first, and number all checks consecutively. Do not destroy or mislay a blank that for any reason is not used. Mark across the face of the blank *Canceled*, or *Void*, and attach it to the corresponding stub. Observe the same instructions in writing notes and drafts.

Discounting Time Paper

Either because the holder needs the money which good paper will yield at the bank, or because the one responsible for its payment is less likely to ask for a renewal if the paper has been discounted, a great deal of it reaches the bank before it matures. The business man applies two tests to everything that is offered him in the course of trade. He wants to know how he can use a thing, or where he can dispose of it, and what it will bring. There is practically but one market for negotiable paper, and that is the bank. So if the business man accepts such paper, his only criterion of its present value is what the bank will give for it. Wholly apart from the financial standing of the parties to a note receivable, the bank will not accept it after maturity. It does not care to handle renewals, and is exceedingly cautious in the matter of discounting accommodation notes; that is, notes for which value has not been given in due course of trade. The value of such paper as the bank will accept is computed by the method known as " bank discount," which was very fully treated on pages 115 and 116.

Indorsements

Negotiable paper — notes, drafts, and checks — calls for the payment of a certain sum of money to a designated payee, or to bearer. The party designated as payee may either receive payment himself or order the money paid to some one else. The payee directs payment to another by a writing, usually on the back of the paper, called an " indorsement." Besides transferring and passing title to the instrument, an indorsement makes an indorser responsible, with certain conditions, for the amount named in the paper, unless words are employed in the indorsement to exempt the indorser from such liability.

If the paper is made payable, either originally or by indorsement, to *bearer*, that is, to the holder, it may be passed thereafter from one party

to another without indorsement. But, since negotiable paper is received, at least to some extent, on the responsibility of the one offering it, and since such responsibility may be fixed only by indorsement, a prudent person will ordinarily require indorsement in any event.

With reference, then, to the intent and responsibility of the indorser, indorsements are classified as "blank," "special," "qualified," and "restrictive."

All indorsements, of course, require the signature of the indorser. Rubber stamps are very generally used by business firms and banks with which to indorse, and they seem to answer every requirement. When the indorsement consists of the name of the indorser only, it is said to be "in blank." Such indorsement designates no indorsee and makes the paper payable to bearer.

When the indorser specifies the party to whom the money shall be paid, as, *Pay to the order of John Doe, Richard Roe*, the indorsement is said to be "in full," or "special." If the indorser wishes to transfer the instrument without assuming liability as indorser, he may employ the words *without recourse*, or their equivalent, as, *Pay to the order of John Doe, without recourse, Richard Roe*. Such an indorsement is called "qualified."

An indorsement with delivery transfers the ownership of the paper to the one to whom it is indorsed and delivered, unless words are employed to show that the indorser does not intend to transfer such ownership. *Pay to the order of the Corn Exchange Bank for collection, Richard Roe*, makes the bank the agent of Richard Roe for the purpose of collecting the paper, and is a "restrictive indorsement." Many banks, however, will not accept this form of indorsement, but will require a blank or special indorsement, without the restrictive words *for collection*.

The prudent business man will always make use of the special, instead of the blank, indorsement as a matter of precaution. Paper is usually sent to the bank by messenger, whose carelessness or dishonesty may result in loss to the owner unless the paper is fully indorsed. The same consideration makes it imperative that paper payable to bearer should not be sent through the mails. A further consideration that should weigh in the matter of drawing and indorsing commercial paper is, that such paper, after it is paid and canceled, should be available as evidence of all the parties involved as givers and receivers of value.

Ordering Goods

All sales and purchase transactions originate in some form of order. Orders are usually sent by mail. If the telegraph or telephone is used, such communication should be promptly confirmed in writing, so that if a mistake is made in transmission, it may be rectified at the earliest possible moment.

In the exercise following, all orders will be written in the order book in triplicate, and numbered consecutively. The original white copy will be mailed to the supplier, and the yellow triplicate will be placed in the bookkeeper's file for checking the invoice when it arrives. The duplicate tissue will remain in the order book.

Handling Customers' Orders

When an order is received from a customer, it should be copied in triplicate on the order form provided. The original white copy is passed to the credit man for his approval, and is placed on file for reference. The duplicate is passed to the warehouse or factory to be executed, while the third copy is forwarded to the customer, accompanied with a form letter of acknowledgment. When an order is taken by a salesman on the road, two copies will ordinarily be received on the order form, the third having been left with the customer.

Invoicing

Orders sent to the warehouse will be filled by the shipping clerk, and reported back on another form called a "shipping order." The shipping order will contain, besides the data given on the customer's order, register and bale, or case, numbers. The bookkeeper enters prices on the shipping order and makes extensions. It is then passed to the invoice clerk, who prepares and mails the invoice in an "outlook envelope."

Orders sent to the factory are filled and reported back on a form called a "consignment invoice" in duplicate. Prices are entered, extensions made, and the customer's invoice prepared. One copy of the consignment invoice is returned to the factory, with our remittance for the proceeds, at the time of settlement.

Terms

Unless otherwise specified, the terms of each sale in the following exercise include a discount offering of 4% for payment within ten days from the invoice "dating." Invoices, particularly in the carpet trade, usually bear two dates. One has reference only to the date of shipment, and is taken from the shipping order, or consignment invoice. The other indicates the term of credit offered. For illustration, an invoice made Jan. 7, "March 1 dating, terms 4% 10 days," may be paid as late as March 11, with the discount deducted. The long terms of credit which obtain in the carpet trade, obviously cannot be adopted in a text book without extending the narrative over a period of time much too long for school purposes. The terms of credit, therefore, have been arbitrarily shortened to give the student a variety of practice without undue repetition.

Claim Adjustments

There is in virtually every business involving the transportation of commodities, numerous claims against transportation companies for the

loss of, or damage to, goods in transit. The shipper (seller) usually takes the attitude that when he delivers the goods to the transportation company "in apparent good order and condition" and receives a "clean" bill of lading, his responsibility ends. Invoices often bear notices to customers to this effect. Customers, however, often ignore this provision, accept short deliveries, damaged goods, etc., and deduct the value of short delivery, or damage, as the case may be, from their remittances. Because the seller does not wish to offend a customer, however unreasonable, he accepts the situation, and attempts to recover from the transportation company.

Before the transportation company will consider a claim it usually requires a copy of the bill of lading and a certified copy of the seller's invoice. Not until the traffic department has in hand documentary evidence of the loss suffered will settlement be made.

Filing Papers

You will find in your supplies various receptacles which are labeled as follows: "Shipping Orders," "Bookkeeper," "Letters," "Paid Invoices," "Vouchers," "Outgoing Mail," "Bank," and "Safe." It is not suggested that these will give the student a knowledge of how papers are filed in a business office. Some orderly disposition of your papers is necessary as you pass over them for the time being, so that you may refer to them as occasion requires. These devices, however, will test the student's aptitude for order and system. The slovenly and disorderly individual soon comes to grief in handling documents involved in office routine. If you aspire to success in any business position, cultivate orderly habits.

Numbered transactions in the text, when instructions are not fully given, refer to a numbered document, or documents, from which the facts involved must be largely inferred. This is an exercise in the interpretation of business papers, and facts of which documentary evidence is available will be largely neglected in the text. Study each situation as it arises, and do not go ahead until you have a complete understanding of the circumstances involved.

Form Letters

Many of the communications sent out of a business office are, for the most part, repetitions of former communications on the same subject. In making and acknowledging remittances, acknowledging orders and the like, the language employed, except for the date, address, and amount involved, is practically the same. Manifestly, if these stereotyped forms of expression are printed, leaving blank spaces for such part of the communication as varies in each case, much time and labor are saved.

SELLING PRICE LIST

Bigelow Axminster

1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
1.32½	1.30½	1.29½	1.22½	1.23	1.25	1.24	1.33½	1.21	1.28
11	*12*	*13*	*14*	*15*	*16*	*17*	*18*	*19*	*20*
1.24½	1.23½	1.34½	1.31½	1.25½	1.27½	1.31	1.27	1.32	1.29
21	*22*	*23*	*24*	*25*	*26*	*27*	*28*	*29*	*30*
1.34	1.21½	1.35½	1.22	1.26	1.35	1.26½	1.28½	1.30	1.33

Oil Cloth

1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
.20	.24¾	.21¾	.17½	.23¾	.20¼	.18	.22	.23¼	.22½
11	*12*	*13*	*14*	*15*	*16*	*17*	*18*	*19*	*20*
.20¾	.18¼	.24½	.17¾	.24¼	.21½	.21¼	.19¼	.18½	.24
21	*22*	*23*	*24*	*25*	*26*	*27*	*28*	*29*	*30*
.23	.20½	.22¼	.21	.19½	.19	.23½	.19¾	.22¾	.18¾

Inlaid Linoleum

1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
.46	.38¾	.44½	.41½	.44¼	.41¼	.44	.41	.43¾	.40¾
11	*12*	*13*	*14*	*15*	*16*	*17*	*18*	*19*	*20*
.43½	.44¾	.40½	.45¾	.43¼	.40¼	.45½	.43	.40	.45¼
21	*22*	*23*	*24*	*25*	*26*	*27*	*28*	*29*	*30*
.42¾	.39¾	.45	.39½	.42½	.39¼	.42¼	.39	.42	.41¾

Plain Linoleum

1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
.62½	.67½	.54½	.69	.56½	.59½	.68½	.67	.63½	.55
11	*12*	*13*	*14*	*15*	*16*	*17*	*18*	*19*	*20*
.61	.68	.66½	.61½	.55½	.60½	.66	.56	.60	.58½
21	*22*	*23*	*24*	*25*	*26*	*27*	*28*	*29*	*30*
.65½	.62	.59	.57	.63	.58	.64	.65	.57½	.64½

Matting—Empress

1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
.16	.19¼	.14¾	.17¾	.13¼	.19	.12	.15¾	.18½	.14
11	*12*	*13*	*14*	*15*	*16*	*17*	*18*	*19*	*20*
.12¼	.15½	.17	.18¼	.12½	.14½	.16¾	.15	.18	.15¼
21	*22*	*23*	*24*	*25*	*26*	*27*	*28*	*29*	*30*
.12¾	.13¾	.16½	.17½	.13½	.16¼	.17¼	.18¾	.14¼	.13

Matting—Lotus

1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
.13⅝	.15¼	.14¾	.14¼	.11⅝	.12¼	.13	.13⅜	.15⅛	.14½
11	*12*	*13*	*14*	*15*	*16*	*17*	*18*	*19*	*20*
.12⅞	.12⅝	.11¾	.14⅝	.14	.13⅛	.11⅞	.15	.14⅛	.12¾
21	*22*	*23*	*24*	*25*	*26*	*27*	*28*	*29*	*30*
.13¼	.12⅛	.13⅞	.12⅜	.14⅜	.13½	.12	.13¾	.12½	.14⅞

WHOLESALE CARPET BUSINESS

Exercise 23

Samuel Holbrook and C. B. Rutledge are engaged in the wholesale carpet, matting, and linoleum trade as partners, under the firm name of Samuel Holbrook & Co. Mr. Holbrook owns a two thirds' interest, but profit and loss are shared equally. The investments of partners are equalized by allowing each 6% interest on his capital investment, which is to be adjusted before profit is stated and distributed.

The books are closed Aug. 31, 19— and the following balance sheet is submitted.

Balance Sheet, Aug. 31, 19—

ASSETS				LIABILITIES			
Cash: On deposit	3840.45			Notes Payable, Sched. C		2359	12
Office cash	50.	3890	45	Interest Accrued on Notes Payable		14	89
Notes Receivable, Sched. A		2798	16	Accounts Payable, Sched. D		2502	12
Interest Accrued on Notes Receivable		5	61	Consignments (Burt Carpet Co.)		4252	53
Accounts Receivable, considered good, Sched. B		8450	20	Wages and Salaries unpaid			
Stock of Merchandise, per inventory		27675	60	Shipping Dept.		42	
Office Furniture		1200		Traffic Dept.		42	
Warehouse Equipment		675		Office Help		31	33
Traffic Equipment		7540		Total		9243	99
Office Supplies		165		Sam'l Holbrook, Capital	29988.31		
Shipping Supplies		630		C. B. Rutledge, Capital	14994.16		
Traffic Supplies		275		Firm's Capital		44982	47
Salesmen's Account		369	45				
Commission Earned		244	94				
Prepaid Insurance and Taxes		307	05				
		54226	46			54226	46

Schedule A (Notes Receivable)

The New England Furniture Co.,	dated June 5 at 3 mo.	465	
The Ingham Linoleum Co.	" July 1 " 4 "	386	
Henry W. Strong	" July 17 " 3 "	553	
The J. E. Keith Furniture Co.	" Aug. 1 " 60 days	318	66
Place & Pelton	" Aug. 16 " 90 "	700	
Davis & Blackburn	" Aug. 23 " 30 "	375	50

Schedule B (Accounts Receivable)

Russell Sprague, Inc.	Invoice of June 5, Sept. 1 dating, terms, 4 % 10 days	386	50		
	Invoice of July 7, Sept. 15 dating, terms, 4 % 10 days	412	50	799	
J. M. Flagg & Co.	[1] Invoice of May 7, 4 mo. dating,	415	68		
	" " June 1, Sept. 1 "	563	55		
	" " July 5, 60 days "	812	40	1791	63
National Furniture Co.	Invoice of July 20, 60 days dating	218			
	" " Aug. 12, Sept. 1 "	150	65		
	" " " 25, 30 days "	690			
	" " " 7, Sept. 15 "	237	45	1296	10
Hemstreet Furniture Co.	Invoice of Aug. 18, 30 days dating	456	85		
	" " " 11, 30 " "	327	60	784	45
Ingham Linoleum Co.	Invoice of June 27, 90 days dating	845	73		
	" " July 7, Oct. 15 "	648	30		
	" " " 30, 60 days "	200	85	1694	88
Butterworth & Co.	Invoice of July 1, 60 days dating			309	60
Carter Brothers	Invoice of Aug. 7, Sept. 1 "	798	04		
	" " " 25, 30 days "	976	50	1774	54

Opening the Books

Procedure

1. Compare the notes and acceptances in your possession with Schedule A items. Find the maturity of each paper and enter the details in the notes receivable record. File all notes, drafts, and checks in the " Safe."

2. Compare the unpaid invoices with Schedule D items, and file such invoices, together with consignment invoices and orders, in " Bookkeeper " file.

[1] Terms on all invoices 4 % 10 days.

Schedule C (Notes Payable)

National Fiber Matting Co.,	dated June 5, at 4 mo., with interest at 6 % per annum			765	
St. Louis Floor Covering Co.,	dated July 17, at 4 mo., with interest at 6 % per annum			400	
Frank H. Spencer & Co.,	note dated June 13, at 3 mo.	500			
	" " Aug. 24, " 3 "	394	12	894	12
The Chicago Rug Co.,	note dated Aug. 20, at 1 mo. with interest at 6 % per annum			300	

Note. — All notes, except that of July 17 favor St. Louis Floor Covering Co., are payable at the Second National Bank, at your address.

Schedule D (Accounts Payable)

James E Simmons & Co.	Invoice of Aug. 30, net cash	752	83		
	" " July 7, 60 days' dating, terms, 4 % 10 days	334	78	1087	61
The Hartford Carpet Co.	Invoice June 15, terms, 3 mo. net	314	21		
	" Aug. 23, 4 % 10 days, or 4 mo. net	305	10	619	31
The J. W. Hawthorne Co.	Invoice of Aug. 25, Sept. 15 dating, terms, 2 % 10 days			392	50
J. W. Stilwell & Sons	Invoice of July 1, Sept. 1 dating, terms, 4 % 10 days			402	70

3. Find the maturity of all Schedule C items and enter the details in the notes payable record.

4. Foot Schedule B items and compare the footings with the *Accounts Receivable* account in the balance sheet. Open the customers' ledger. Enter each invoice separately and indicate the terms in the wide column. Give the National Furniture Co. ten lines; J. M. Flagg & Co. and Ingham Linoleum Co., eight lines; all other customers, six lines.

5. Open the general ledger with the accounts listed in the balance sheet, except *Accounts Payable*. In place of this account open an account with each trade creditor (Schedule D), giving to each six lines. Unless transactions with a creditor are continuous, you should avoid, if possible, opening an account with him in the ledger. Several expedients are resorted to in order to save the labor of opening personal accounts with transients: (1) So far as practicable make no entry until the transaction is executed; (2) when credit has been given in the purchase book and settlement is made

before the posting is reached, use cross-reference post-marks; (3) if transient items have to be posted at the end of the period, group them under the caption "Transient Accounts Payable," or some such descriptive title; (4) in closing expense accounts involving unsettled items, credit the new account instead of the person owed, although this latter expedient is condemned by some accountants.

Group accounts with reference to the source book in which they originate and to the conclusions to which they lead. For the purpose of this exercise, the following order is suggested. The number in parenthesis indicates the number of lines' space the preceding account requires. If the space is not indicated, give the account six lines.

Samuel Holbrook (Capital), Samuel Holbrook (Private), C. B. Rutledge (Capital), C. B. Rutledge (Private), Cash, Notes Receivable (10), Accounts Receivable (10), Merchandise Stock, Merchandise Purchases, Merchandise Sales, Consignments (10), Profit & Loss, Commission, Selling Expense, Shipping Expense (10), Traffic Expense (10), Office Expense (10), Shipping Supplies (10), Traffic Supplies (10), Office Supplies (10), General Expense, Insurance & Taxes, Interest & Discount (10), Interest on Capital, Merchandise Discount, Reserve for Sales Discount, Office Furniture, Warehouse Equipment, Traffic Equipment, Salesmen's Account, Notes Payable (10), accounts with trade creditors, Transient Accounts Payable.

6. Open your cash book with the cash balance, entering the amount short. Enter the bank balance on the check book stub at the top of page 1. Assume that your bank pass book was written up Aug. 31, at which time checks aggregating $434.90 had not been returned to the bank, and were consequently not charged against you at that time. What balance should the pass book show? Have this amount entered on the left page of the pass book, first line, by your teacher, or by some one designated by him, as follows, *Aug 31 (current year) Balance $.* The pass book is the *bank's record* of your transactions with it. You should make no entries in this book.

7. Enter the transactions set forth in the following narrative and accompanying documents. In dating transactions and documents, use the current year. Complete all records and file all papers relating to a transaction before you proceed with the next.

8. In the following exercise the student will be required to send repeatedly at least three types of letters; namely, those accompanying and acknowledging remittances, and those acknowledging orders. He should accordingly prepare at the beginning, and submit for approval, three form letters that may be used for the purposes mentioned as occasion arises. (See Form Letters, page 199.)

September Narrative

(SAMUEL HOLBROOK & CO.)

September 1, 19—

No. 1. — Give James Simmons & Co. check for invoice of Aug. 30. Among your supplies you will find a power of attorney authorizing you to sign or indorse the name of Samuel Holbrook & Co. to all papers that go to the Second National Bank. All other papers may be signed "Samuel Holbrook & Co. by (your own name)." Write your name in the proper spaces in the power of attorney, fill in the date and file in "Safe."

Remove the invoice from "Bookkeeper" file and consult their account in the ledger. Fill out the check stub first. Number the checks consecutively. Deduct the amount of the check from your bank balance to show the new balance. Consult model (page 195) and exercise the utmost care in writing checks. Have you prepared the form letter of remittance? (See Form Letters, page 199.) If not, do so now. Fold the check in form letter and file in "Mail." Mark the invoice *Paid*, with the date and check number, and file in "Paid Invoices." Enter in cash book. (5–8)

NOTE. — For the student's convenience in allocating items in the cash book, he may number the money columns in light pencil figures from left to right across both pages. The numbers in parenthesis indicate the money columns involved in making the entry. Do not follow these numbers blindly. Know the reason why they are used in each case. These index numbers will be given in a few transactions only.

No. 2. — Leave the New England Furniture Co.'s note of June 5, last, at the Second National Bank for collection. Read again the paragraph on indorsements (page 196) and properly indorse this note. Have the amount entered in the back of your pass book as a receipt for the paper you deliver to the bank. File the note in "Bank" file. Where must this note be presented for payment? How will it reach the bank at which it is payable? Does making a note payable at a bank authorize such bank to pay it? What is necessary to be done by the maker of this note to meet it at maturity, and what will happen if the note is not paid?

No. 3. — Order of Frank H. Spencer & Co., Detroit, Mich., the following:

9 Kar.	Wilton	Rugs,	pattern	4025E,	size	9 × 12
6 "	"	"	"	4016H,	"	$8^3 \times 10^6$
3 Spec.	"	"	"	0386L,	"	$10^6 \times 15$
6 "	"	"	"	0486K,	"	9 × 12

Enter this order on your order book. Use carbon paper and make three copies. Give shipping instructions. Mail the original white copy

to Frank H. Spencer & Co. File the yellow triplicate in "Bookkeeper" file. The tissue copy remains in the order book. Beginning with 4002, number orders consecutively. To distinguish orders for merchandise from those for supplies, mark the former J and the latter G, as "No. J4002," "No. G4005," etc.

No. 4. — This is a consignment invoice. These goods have been shipped by the Burt Carpet Co. on your customer's order No. 275. Take the order from the "Bookkeeper" file and check off shipments, placing the date of shipment, "8/31," after each item. Write the customer's invoice as follows:

WE RESERVE THE RIGHT TO ADVANCE PRICES AT ANY TIME ON TEN DAYS' NOTICE

SAMUEL HOLBROOK & CO.

ESTABLISHED 1854

Rugs
Carpets
Mattings
Linoleums

THE KEYSTONE FURNITURE CO.
MADISON, WIS.

Tel. 7890 Main

Terms: 4% 10 days
60 days extra dating

Your No. Refer to this fol. Mail 7089

(Your address)

AUG. 31, 19—

PAYABLE ONLY IN NEW YORK OR CHICAGO FUNDS

251	23745	1	9×12 Super. Axm.			
	46	1				
	47	1	3	18.85	56.55	
3047	48	30	36″ Khor. Axm.	2.65	79.50	
8007	49	3	8/3×10/6 Cand. Axm.	12.65	37.95	
	Via M D c/o C & N W					174.

Study this invoice carefully, as it should serve as a model in writing invoices later. Note that it bears the date of the consignment invoice — the date the goods were shipped. Copy this invoice on a blank provided. Enter in the sales book, extending the amount to "Consignments" column. When you enter a charge in the sales book from the consignment invoice or shipping order, mark the paper from which the entry is made "S. B. Fol. —" (the page of your sales book). Attach the customer's order to the consignment invoice and return both to "Bookkeeper" file. Mail the customer's invoice to the customer in an outlook envelope. Fold the invoice so that the address may be read through the "window."

No. 5. — This shipping order shows goods shipped from our warehouse. Check this shipment with customer's order No. 276, " Bookkeeper " file. Foot the " Yards " column, enter the price from your price list, which your instructor will assign, in the " Price " column, and make extensions to the " Net " column. The " Gross " and " Discount " columns are to be used when trade discounts are involved. Prepare the invoice. Enter in the sales book, crediting *Merchandise Sales*. Mail all invoices in outlook envelopes without further instructions. After marking shipping order as instructed in No. 4, attach the customer's order No. 276, and file in " Shipping Orders " file.

NOTE. — Routine instructions will not be repeated. Whenever a warehouse shipping order or a consignment invoice, from the Burt Carpet Co. turns up, you are to prepare and mail the customer's invoice, and enter and file all papers. When prices are not given on the shipping order, consult your price list. The columns on the shipping order to the left of the "Price" column are for the use of the shipping clerk.

No. 6. — All invoices covering supplies bought are passed upon by the stock clerk, W. O. Kendrick. His initials indicate that the goods specified have been received. You should compare each invoice with the original order on file, verify extensions, and enter in purchase journal, indicating the page of that book on the invoice. Charge this purchase to *Shipping Supplies*, as follows:

Date	Fo.	From Whom Bought	Dating	Accounts Dr.	Fo.	Sundries		Mdse. Purchases	
19— 8/27		Leonard, Cornell & Brown	3/10 n/30	Shipping Supplies		25	36		

File unpaid invoices in " Bookkeeper " file for future reference.

Sept. 2

No. 7. — Discount Davis & Blackburn's note of Aug. 23 at the Second National Bank and receive credit for the proceeds. Compute the discount and enter in cash book (1–3–4). Enter all interest charges involved in discounting paper in the " Sales Discount " column in red. When you close the cash book, state two totals, an Interest total and a Sales Discount total. Enter the proceeds of this note on your check book stub. What is your bank balance now ? Have the bank give you credit in your pass book. Indorse the note in full and file in " Bank."

No. 8. — Give the Hartford Carpet Co. a check to cover invoice of Aug. 23 and take the discount. Follow instructions given in No. 1.

No. 9. — Follow instructions given in No. 6. Give the entry the invoice date. (Charge *Shipping Supplies.*)

No. 10. — Follow instructions given in No. 5. (Credit *Merchandise Sales* for all warehouse deliveries.)

No. 11. — Write a check to the order of *Salaries & Wages*, and distribute as follows: Shipping Expense, $63; Traffic Expense, $63; Office Expense, $47. Cash book (5–8). File the check in "Bank."

No. 12. — Open the petty cash record by entering the cash on hand Sept. 1, $50, in the "Receipts" column. All currency payments are entered in the "Amount" column and also in one or more of the columns under "Distribution," so that a trial balance of this sheet may be taken when the summary is carried to the main cash book. Carry the items from the petty cash voucher to the petty cash sheet, charging the accounts indicated.

No. 13. — Discount The J. E. Keith Furniture Co.'s acceptance of Aug. 1, at the Second National Bank. Follow instructions given in No. 7. Whom did we credit when this acceptance was received? What should we credit now? (1–3–4)

No. 14. — Order of the New England Specialty Co. for immediate freight shipment:

25 bales	"Empire" stair pads
10 "	pat. J, carpet lining
146 yd.	"5001 cable napier

Write the order in triplicate and make disposition as directed in No. 3.

Sept. 5

No. 15. — Prepay our note of June 5 favor National Fiber Matting Co. Although this note is payable at the Second National Bank, we have an understanding with the payee that we may take up notes in its favor at any time when our funds will permit. Write a check for the proceeds and mail with form letter of remittance. Whom did we charge when we gave this note? What should be charged now? (5–8)

Sept. 6

No. 16. — Order of the Penn Carpet Mills, Philadelphia, Pa., prompt freight shipment:

1 roll	pattern 804 Terry
1 "	" 809 "

Make disposition as previously instructed.

No. 17. — Give Leonard, Cornell & Brown a check for invoice of Aug. 27, less discount offered. (5–6–8)

NOTE. — Avoid opening an account in the ledger with this firm by using cross-reference post-marks.

No. 18. — The pattern number letters — K, C, and S — indicate Khorassan, Candahar, and Superior grades, respectively. Make extensions and invoice, dating invoice Sept. 4 — the date of shipment. Credit *Consignments* for all consignment sales. File both copies of this consignment invoice. You will need them later.

NOTE. — The customer's order in sales transactions will hereafter be dispensed with. The procedure in every case is the same.

Sept. 7

No. 19. — Give the Manila Burlap Co. a check for invoice of Aug. 28. (5–8) How can we avoid opening an account in the ledger with this firm? (No. 17) Follow previous instructions in every particular.

No. 20. — Find total quantity in yards and make extensions. Indicate shipping directions, marks, and terms of sale on all invoices.

No. 21. — Prepay the following items on the shipment to M. Meyer & Son (No. 20) by check, payable to Cairns & Co., agents:

Freight, 3070 lb. @ 75¢ per cwt.
Insurance, $1.55
State toll, .15

Send M. Meyer & Son a separate invoice for these items, terms net cash, and charge *Accounts Receivable* (M. Meyer & Son) for the amount. (5–8)

No. 22. — Refer to No. 15. What is this document? Name the parties. Of what value is this paper to you now? Compare this letter acknowledging a remittance with the one you have written. File note in "Vouchers."

Sept. 8

No. 23. — Refer to No. 2. Whom did we credit when we received this note? What should we credit now? (1–4) What is your bank balance now? Does your check book stub show this balance?

No. 24. — Order of the Household Hardware Co. (your place) for immediate delivery:

1 keg 6 D coated nails @ $2.20
1 " 8 D " " @ $2.10

Are you writing these orders as you were instructed in No. 3?

No. 25. — Refer to the remitter's account to see what item this remittance covers. (1–2–3) What is our regular discount allowance? File all checks in "Safe."

No. 26. — Send the Burt Carpet Co. a check for the proceeds of consignment of July 1, No. A459. You are allowed the same terms that are given the customer; namely, 4% 10 days. Deduct the discount from

the invoice amount, and then deduct your commission of 6 %, which is based on the invoice amount, less the discount. (5–6–7–8) Remove the copies of this consignment invoice from the " Bookkeeper " file, note deductions on them. Note the date of your remittance and check number on the pink copy and file in " Vouchers." Mail the white original with your remittance to the consignor, the Burt Carpet Co. This document, when completed, is called an " account of sales," or an " account-sales." It is the report of the selling agent to the consignor of the sale of a consignment of goods.

No. 27. — Deposit check of Butterworth & Co. in the Second National Bank. Read the paragraph on making deposits (Deposit Ticket, page 193), and follow instructions. Enter the deposit on your check book stub. What is your bank balance now?

Sept. 9

No. 28. — Prepay our note favor St. Louis Floor Covering Co. of July 17. Write a check in favor of the payee for the proceeds and mail. (5–8) Is Interest a debtor or a creditor in this transaction?

No. 29. — Order of the Connecticut Carpet Co., New Haven, Conn., for prompt shipment by freight:

2	rolls	pattern	3593P	Axminster
2	"	"	3590F	"
2	"	"	3606P	"

No. 30. — Read the letter accompanying this shipping order. Take an order bill of lading — three copies — from your supplies. Use carbon paper and write in triplicate. Both the shipper and the agent of the transportation company receiving the shipment must sign the original (yellow copy) of this B / L, which should be drawn *to the order of National Furniture Co. Notify J. J. Mason Co.* Mail the original with your invoice. File the " Memorandum " in " Vouchers." The " Shipping Order " must be delivered to the freight agent. In writing this invoice include prepaid freight, 395 lb. @ 30¢ per cwt. Charge the National Furniture Co. with the f. o. b. cost only. The freight will be charged through the cash book when it is paid.

No. 31. — Write a check to the order of *Salaries & Wages*, $174, and distribute as follows: Shipping Expense, $64; Traffic, $63; Office Expense, $47.

Sept. 11

No. 32. — Make disposition as previously instructed.

No. 33. — Give J. W. Stilwell & Sons our check to cover invoice of July 1. Master the situation before you proceed.

No. 34. — Make disposition as instructed. "R. R. W." is our merchandise stock clerk.

No. 35. — Invoice these bamboo poles at 4¢ each, terms, net cash.

No. 36. — Invoice these color cards at $4 each, C. O. D. Fill out an express bill of lading, which have the express agent sign, and file in "Vouchers." Insert the invoice in the C. O. D. express envelope properly filled out, and deliver to the Pan-American Express Company, which charge in your sales book with the value of this shipment.

No. 37. — Discount, at the Second National Bank, Henry W. Strong's note of July 17, and receive credit for the proceeds. Do not forget to charge the bank for the proceeds on your check book stub, and to receive credit in your pass book. What indorsement is required?

No. 38. — Enter details in note record and journalize the entry. Where should you file this paper?

No. 39. — Verify extensions. Note the method of deducting trade discount. Make proper disposition.

Sept. 12

No. 40. — Order of the Bigg Desk Co., 1 roll-top desk, $12.

No. 41. — Invoice the rugs called for at $21.50 each, terms 4 % 10 days, no dating. The cost of this night letter, which we have paid, will be charged to J. B. Johnstone & Co. through the petty cash record. Render them a separate invoice for this item. Mail the two invoices under one cover. Study the wording of this telegram.

No. 42. — Refer to No. 28.

No. 43. — What is this document? From whom received? To whom is it payable? Can Samuel Holbrook & Co. make any use of it? Explain. Why was it not drawn to the order of Samuel Holbrook & Co.? Would you prefer this paper to the check of J. M. Flagg & Co. on a Milwaukee bank? Why? Make disposition.

No. 44. — Send the Burt Carpet Co. a check in settlement of consignment invoice of June 1, No. A458. Read again the instructions given in No. 26, and proceed accordingly. What account is charged for this remittance?

No. 45. — Deposit the check of Russell Sprague, Inc., and the Chicago draft of J. M. Flagg & Co. Follow previous instructions.

Sept. 13

No. 46. — This communication is self-explanatory. You should consult your note record daily and take care of maturing paper. When you make a note payable at a bank, you authorize such bank to pay it, which they will do, provided you have a sufficient sum of money on deposit. Banks usually send notices to debtors of maturing paper. What entries?

No. 47. — Check this invoice with order No. J4002, and make proper disposition.

No. 48. — Read carefully and make proper disposition. "Terry" is a trade name for ingrain. Explain "payable with exchange" and "subject to draft."

No. 49. — This is in settlement of our invoice of Sept. 11. Spread the details on the note record and journalize the entry. File.

No. 50. — Order of the Penn Carpet Mills, Philadelphia, Pa., for prompt freight delivery:

Tapestry, velour body —
1 roll each, patterns 6, 8, and 11
3 rolls, pattern 5

No. 51. — Give Frank H. Spencer & Co. a check for invoice of Sept. 4. Look up the terms of this invoice before you proceed.

Sept. 14

No. 52. — Discount Place & Pelton's note of Aug. 16 at the Second National Bank, and receive credit for the proceeds. What is your bank balance now?

No. 53. — Give James E. Simmons & Co. a check to cover invoice of July 7.

No. 54. — Give the Hartford Carpet Co. our 30-day interest-bearing note in settlement of invoice of June 15. Write the note under date of Sept. 15 on a form provided, and mail. A brief letter should accompany this remittance. In what books should the record be made? Name the debtor; the creditor.

No. 55. — These nails are for the shipping department.

No. 56. — What account should be charged for this item? In what book?

Sept. 16

No. 57. — Mr. Rutledge was away on the 9th, so the petty cash voucher for last week went over. Enter the charges against J. B. Johnstone & Co. and Consignments (Burt Carpet Co.) in the sundries column, all other items as indicated.

No. 58. — Give the Bigg Desk Co. a check to cover invoice of Sept. 14. Cross-reference post-marks.

No. 59. — For invoice of Sept. 4. Verify, enter, and file.

No. 60. — Make extensions, deducting trade discounts. Assume that this shipment is made on a straight bill of lading. Take the blanks from your supplies and fill out the bill of lading, assuming that there are ten cases weighing 2150 lb., at 50 ¢ a cwt., and that the freight is to be paid by the consignee.

No. 61. — Draw a draft at sight on M. Meyer & Son, San José, Cal., for invoice of Sept. 6, covering prepayment of freight, insurance, etc., and pass the draft through the Second National Bank for collection. Write the draft on form provided and file in "Bank." Have the item entered in the back of your pass book. To whom should this draft be made payable?

No. 62. — Write a check to the order of *Salaries & Wages* and distribute as follows: Shipping department wages, $64; drivers' wages, $63; wages of office help, $47.

No. 63. — Give the Burt Carpet Co. a check for the proceeds of their consignment of Sept. 4, No. A461. Deduct discount and commission as previously instructed.

Sept. 18

No. 64. — Prepay our note of Aug. 24, favor Frank H. Spencer & Co.

No. 65. — Return to the New England Specialty Co. 1 bale of carpet lining at $6. This is a part of their invoice of Sept. 8. The lining was found to be badly torn. Notify them by letter of this return and ask for credit. What entry?

No. 66. — Order of the Card Board Box Co. (your place), for prompt delivery to our warehouse, 100 #16 boxes $51\frac{1}{2} \times 22 \times 8$.

No. 67. — Make disposition as previously instructed.

No. 68. — Our Aug. 7th invoice to Carter Brothers Co., Cincinnati, O., fell due Sept. 11. Draw a sight draft on them, and pass it through the Second National Bank for collection. To whom should this draft be made payable?

No. 69. — In payment of our invoice of May 7. Verify and make proper disposition.

No. 70. — Order of Taylor, Cooper & Co., 485 Adams St., Chicago, Ill., for prompt freight shipment:

8 rolls Axminster, pattern 2253
2 rolls $\frac{5}{8}$ border

No. 71. — Order of A. W. Bowman & Co., Chicago, Ill., to be shipped by freight:

1000 # cracked corn
1000 # mixed grain
500 # meal
500 # corn

No. 72. — Order of the Swift Dustout Co., Front & Carr sts., Cincinnati, O., to be shipped by freight: 1 bbl. "Dustout."

No. 73. — Give the New England Specialty Co. a check for invoice of Sept. 8, less returns and discount. On what amount should the discount be computed?

No. 74. — Deposit all cash items on hand. What is your bank balance now?

Sept. 19

No. 75. — Order of the Mohawk Manufacturing Co., Amsterdam, N. Y., to be shipped promptly by freight:

Amsterdam Wilton Rugs —

Patt. 0396K	27″ × 54″	3	@ $ 3.
	4/6 × 7/6	3	9.65
	8/3 × 10/6	3	26.75
0389L	9 × 10/6	3	27.05
0472F	10/6 × 15	3	48.30

No. 76. — In settlement of our C. O. D. shipment to W. M. Gray. Whom did we charge for the value of this shipment? Whom should we credit now? Make disposition and file.

Sept. 20

No. 77. — Consult your notes payable record and make proper disposition.

No. 78. — This material will be consumed by our drayage trucks. What account should be charged?

No. 79. — Make disposition as usual.

No. 80. — Remit the Penn Carpet Mills by check in settlement of their invoice of Sept. 11. Write them a letter accompanying this remittance and ask them if they will accept our 30-day interest-bearing note for $200, and cash for the balance, in settlement of their invoice of Sept. 18, allowing us the 4% discount. Look up your available assets and assign some reason for this request.

No. 81. — Explain the practice of quoting trade discounts. Differentiate trade discount, cash discount, bank discount.

No. 82. — In settlement of our invoice of Aug. 11. Who is the drawer? Drawee? Payee? Under what title should this be recorded on your books? How can Samuel Holbrook & Co. make use of a paper payable to the Hemstreet Furniture Co.? How does this paper differ from a check?

No. 83. — Remit the Burt Carpet Co. in settlement of their consignment of Aug. 11, No. T547. Follow the usual procedure.

Sept. 21

No. 84. — Discount the Ingham Linoleum Co.'s note of July 1, and receive credit for the proceeds. What is your bank balance now?

No. 85. — Order of the J. W. Hawthorne Co., Philadelphia, Pa., for prompt freight delivery:

Pat. 606F	25	9 × 12	Spec. Bruss. Rugs	@ $15.70
612A	25	9 × 12	" " "	15.

No. 86. — One of your accounts must be settled to-day to take the discount. Attend to it.

No. 87. — Refer to No. 61 and make proper disposition.

No. 88. — Deposit all cash items on hand.

Sept. 22

No. 89. — For invoice of July 5. Define a promissory note. Name the parties. When does a note draw interest? Verify the amount of this paper and make usual disposition.

No. 90. — What is the meaning of "Anticipation allowed at the rate of 6% per annum only"? Are we in a position to take advantage of this offer? Why? Make usual disposition.

No. 91. — In settlement of our invoice of Sept. 17. Verify and enter.

No. 92. — Note shipping instructions on this consignment invoice. Shipments are always made in car lots, if possible, to obtain a lower freight rate. Make usual disposition.

Sept. 23

No. 93. — Order of the Jennison Manufacturing Co., St. Louis, Mo., for shipment by express as soon as possible:

3½ M shipping tags @ $1
50 tubes art paste @ 7 ¢

No. 94. — Verify. What is the meaning of "f. o. b. Cincinnati"? Who pays the freight? Study the accompanying documents — 94*a*, 94*b*, and 94*c*. What is a bill of lading? How many kinds are there? What is a freight bill? What is a delivery receipt? This "Dustout" is to be used in sweeping the office. What account should be charged?

No. 95. — Make usual disposition.

No. 96. — Write a check to the order of *Salaries & Wages*, $175, and distribute as follows: Shipping department wages, $64; wages of drivers, $63; salaries of office help, $48.

No. 97. — Charge accounts indicated.

No. 98. — Remit $200 to each of your traveling salesmen; P. O. Dowd, Birmingham, Ala., and John Squires, Portland, Ore. What exchange should you use to enable your agents to procure currency without inconvenience? Where is such exchange procurable at your place? Decide what exchange is desirable, and ask your bank, or instructor, to supply it. Charge *Salesmen's Account* for this remittance.

No. 99. — We paid charges on a telegraphic order from J. B. Johnstone & Co., St. Paul, Minn., Sept. 12, and invoiced his shipment on net cash

terms. He has not remitted. What is the most effective method of collecting this account? Take such action as the circumstances require.

No. 100. — Make proper disposition.

No. 101. — Shipments by parcel post may be insured. Insurance companies issue open policies covering all shipments. The insured is provided with a book of coupons, each of which, when attached to the parcel or invoice, covers the risk up to a certain amount. The government will also insure parcels, not to exceed $50 in value, on the payment of a small premium.

No. 102. — Send the J. W. Hawthorne Co. a New York draft in settlement of their invoice of Aug. 25. Write your check to the order of *New York draft* for the amount and have the draft made payable to the order of *Samuel Holbrook & Co.* What must you do to transfer it to the J. W. Hawthorne Co.?

No. 103. — These boxes are for the shipping department.

No. 104. — Remit the Standard Oil Co. a check for the invoice of Sept. 15.

Sept. 26

No. 105. — Make proper disposition.

No. 106. — Horse feed. This freight bill will be charged through the cash book when paid.

No. 107. — Post J. M. Flagg & Co.'s account to date. Make a transcript of the account on the statement form among your supplies, and mail. Give complete information respecting each item.

No. 108. — Return to A. W. Bowman & Co. the 30 bags charged to you on their invoice of Sept. 21. Ship on a straight bill of lading, freight collect. Mail them the bill of lading with letter of advice. Ask them to give credit. What account should receive credit for this shipment?

No. 109. — For invoice of Aug. 7. Verify and make proper disposition.

No. 110. — Remit the Burt Carpet Co. in settlement of their consignment of Aug. 7, No. T546. Follow the usual prodecure.

No. 111. — Deposit all cash items. What is your bank balance now?

Sept. 27

No. 112. — Follow the usual procedure.

No. 113. — Voucher check. Verify and make usual disposition.

No. 114. — Refer to No. 65.

No. 115. — The Second National Bank reports our draft of the 17th inst. on Carter Brothers Co. returned unpaid. Write them a letter again, reminding them that their account is past due. Ask for immediate settlement.

Sept. 28

No. 116. — For invoice of July 20. When did the discount offer expire? Should we call their attention to this oversight? Make usual disposition.

No. 117. — For invoice of Aug. 18.

No. 118. — Make usual disposition.

No. 119. — Are you checking these invoices by comparison with the original order?

No. 120. — Do what the circumstances require in order to take this discount. What entries?

No. 121. — Give the J. W. Hawthorne Co. our 30-day note, payable at the Second National Bank, and dated Sept. 25, for invoice of that date.

No. 122. — Make usual disposition.

No. 123. — Make usual disposition.

No. 124. — This is in settlement of our invoice of Aug. 7. When did the discount offer on this invoice expire? Write Carter Brothers Co. a letter demanding the balance due. Call attention to the invoice dating. Credit their account with the amount of their remittance only.

No. 125. — Deposit all cash items.

Sept. 30

No. 126. — Discount J. M. Flagg & Co.'s note of Sept. 13 at the Second National Bank, and receive credit for the proceeds.

No. 127. — Charge to shipping department.

No. 128. — Give the Swift Dustout Co. a check in settlement of their invoice of Sept. 20.

No. 129. — Give the Mohawk Manufacturing Co. our 30-day note, payable at the Second National Bank and dated Sept. 24, for invoice of that date.

No. 130. — Define a voucher check, and show its advantages. What are its disadvantages? Verify.

No. 131. — For invoice of Sept. 24. Do not open an account in the ledger with this firm.

No. 132. — Follow the usual procedure.

No. 133. — Enter these items on the petty cash sheet, charging accounts indicated.

No. 134. — Give the Andrew McTigue Co., agent, a check for $200, in payment of September rent of premises. File receipt in "Vouchers."

No. 135. — Write a check to settle this account.

No. 136. — Write a check for this bill.

No. 137. — Render a separate invoice for this freight, terms, net cash. The freight item will be charged to McGraw & Elliott through the cash book when the freight is paid.

No. 138. — Write the following checks:

In favor of *Salaries & Wages*, $175. Charge the shipping department, $64; traffic, $63; office, $48.

In favor of your local railroad company, $129.74, to cover freight charges for the month, and distribute as follows: Office, $1.05; traffic, $3.60; accounts receivable, $82.19 (National Furniture Co. and McGraw & Elliott); merchandise purchases, $42.90.

In favor of the Burt Carpet Co. for the proceeds of their consignment of Sept. 20, No. A462.

In favor of *Office Cash* to cover petty cash vouchers for the month. Enter in petty cash book.

No. 139. — Our salesmen report the following expenses for the month: Dowd, $104.60; Squires, $120. Their salaries and commissions for the month are: Dowd, $160.40; Squires, $146.10. Charge these items to *Selling Expense* and credit *Salesmen's Account.*

No. 140. — Make the necessary computations and an entry to adjust the interest on partners' capital one month.

No. 141. — Deposit all cash items on hand.

No. 142. — Your collection charges for the month of September at the Second National Bank are $4.85. Draw check to cover.

Procedure

Foot and close the petty cash book, and bring petty cash disbursements into the main cash book. Charge the items in "Sundries" column as follows: *Accounts Receivable* (J. B. Johnstone & Co.), $.60; *Consignments*, $1.75.

Have your bank book written up. Ascertain your cash balance, and prepare a reconciliation statement that will bring the main cash book, pass book, check book, and petty cash record into agreement. (See form, page 194.)

Summarize all books, post, take a trial balance, prepare a business and financial statement, and close the ledger.

After the posting is completed prepare an abstract of the customers' ledger (a list of customers' accounts and balances shown) and compare the total with the balance of the *Accounts Receivable* account in the general ledger. If there is a discrepancy, locate and correct the mistake.

Inventories, Sept. 30, 19—: Stock of merchandise, $25,568.32; shipping supplies, $970.40; traffic supplies, $400; office supplies, $150; prepaid insurance, $255; commission recoverable, $206.79. Reserve 4% of accounts receivable for merchandise discount offered.

ACCOUNTING PROBLEMS

Exercise 24

1. P. R. Higgins began business Feb. 1, 19—, with assets valued at $7000 and liabilities amounting to $1500. After having been in business two years, Higgins's assets were $9500 and his liabilities $12600. (*a*) Show these facts in Higgins's account, and close the account. (*b*) Assume that Higgins's assets shrink 10% in liquidation and that liquidation expenses are $927, how many cents on the dollar will his creditors receive? (*c*) A. W. Strauss, one of the creditors, has a claim of $789.45. How much will Strauss receive in settlement?

2. Jan. 15, 19—. Howard Cheston and Willard Mills are equal partners trading under the name of Cheston & Co. The partnership is dissolved by mutual consent. Mr. Cheston agrees to take over all the assets and assume all the liabilities of the business, and to give Mr. Mills a promissory note due in one year without interest for Mills's interest. The assets are valued as follows: bank account, $865.40; notes receivable, $2000; accounts receivable, $3165.80; office furniture, $325; horses and wagons, $865; stock of goods, $14650; good will, $500. The liabilities are as follows: notes payable, $1875; interest accrued on notes payable, $87.43; notes receivable discounted, $850; accounts payable, $2176.75. Find the amount due the retiring partner. (*a*) Make necessary entries to close the books of Cheston & Co. (*b*) Make the entry or entries necessary to open the books of Howard Cheston.

3. Mar. 1, 19—. (With reference to the preceding exercise, No. 2.) Howard Cheston sells a two-fifths' interest in his business to Forest Grant for cash. Assume that the business has earned a net profit of $450 since Jan. 15, and make the required entry or entries to admit the incoming partner.

4. A. Rosenblum keeps an incomplete record of his business transactions. His records show that he owes Edward Horn $1700 on book account and that he has outstanding notes payable amounting to $1400. An account with Morrell Smith shows a debit balance of $600, and a consignment account shows $625 due the consignor, W. A. Brady. Goods valued at $900 have been shipped to Herman & Co., Louisville, from which no returns have been received. His bank book shows a balance of $2300 and a note in the bank for collection of $200. Two other notes in the safe amount to $950. A third note of Michael Cassidy for $200, which is in Mr. Rosenblum's possession, has been protested for nonpayment; protest fees, $2.25, have been paid in cash. His stock of goods is appraised at $1800.

John Kaplan is admitted as an equal partner, investing cash $3600. The partnership agreement provides that the firm of Rosenblum & Kaplan shall take over all the assets of A. Rosenblum at book value and assume all liabilities. Mr. Rosenblum, however, guarantees the payment of all notes and book debts. All debts are ultimately collected except a note for $150. It is then agreed that the good will item shall be reduced by the amount of this bad debt and charged to A. Rosenblum.

Assume that the partnership books are to be kept by double entry and make all entries necessary to record the above facts.

5. Hunt & Hill, merchants, operate the following books: cash book, sales book, purchase book, journal, general ledger, customers' ledger, and creditors' ledger. The footings of the various columns in books of original entry are as follows: journal debtor, accounts payable, $1216.80, accounts receivable, $127.82, general, $3407.16; journal creditor, accounts payable, $312.18, accounts receivable, $1864, general, $2575.60; cash book, left page, accounts receivable, $2418.79, sales discount, $212.45, general, $876.40, net cash, $3082.74; cash book, right page, accounts payable, $1517.60, purchase discount, $48.72, general, $1292.18, net cash, $2761.06. The total sales are $4563.20, and total purchases $3287.

On a sheet of foolscap paper rule the journal prescribed above. Enter therein the journal totals, and after making journal entries which summarize the other books of original entry, close the journal.

6. The following items appear in a trial balance Dec. 31, 19—: sales, $34567.89; machinery, $18760; office furniture, $1012.50. You are directed to reserve 2% of sales for bad debts and ½% of sales for discount offered, to reserve 10% for depreciation of machinery and 5% for depreciation of office furniture. Make the entries necessary to accomplish this. Subsequently discounts amounting to $146.82 are taken by customers, and there are losses from bad debts amounting to $956.87. Give entries showing proper disposition of these discounts and losses.

7. The following facts are taken from the books and inventories of B. A. Vaughn, Dec. 31, 19—. Things owned: cash, $345.70; notes receivable, $890; accounts receivable, $1565.80; stock of goods, $16028; office furniture, $350; shipping supplies, $90. Unpaid items: notes payable, $1150; accounts payable, $1325; wages, $26.50; interest on notes payable, $13.25. Business done since the last closing, Sept. 30, 19—: purchases, $15875; sales, $22940; returned sales $1145; inward freight, $438.65; purchase discount taken, $187.67; shipping supplies bought, $640.20; wages paid, $565; selling expense, $1789.10; office expense, $1156.60; interest paid, $98.30; office furniture has cost, $400. Stock of goods on hand Sept. 30, $13500. The proprietor's capital at the last closing was $13000, and he has since drawn $193.32.

Prepare in report form, trading account, profit and loss account, and balance sheet.

8. From the following trial balance and inventories prepare in statement form a business and financial statement, dated Dec. 31, 19—.

TRIAL BALANCE, DEC. 31, 19—

	H. A. Land, Capital		25000
	H. A. Land, Private	500	
	W. R. Harland, Capital		22000
	W. R. Harland, Private	500	
	Cash	22450	
	Storage		50
	Shipments	3500	1000
	Purchases	4100	
	Sales		1600
	Freight Inward	250	
	Expense	300	
	Rent	250	
	Insurance	250	
	Horses & Wagons	500	
	Furniture & Fixtures	500	
	Real estate	15000	
	Merchandise Discount	200	500
	Notes Receivable	3500	2000
	John Mills	7500	2000
	W. B. Grant	3500	500
	Notes Payable		4500
	R. T. Greene	3000	5000
	Commission		150
	Consignments	3000	4500

Inventories and adjustments:

Stock of goods, $3212; prepaid insurance, $45. It is estimated that horses and wagons have depreciated 10%, furniture and fixtures 8%. Accounts and notes receivable are considered good; but there is one shipment of goods costing $850 that will probably not yield more than 75% of such cost. Interest accruals on notes receivable amount to $23.64. December rent of premises owned by H. A. Land (partner), amounting to $100, has not been paid or adjusted. Allow 6% interest on capital and distribute the outcome in profit or loss equally. Charge consignments 5% of consignment sales, $1500 for commission earned.

Set up and close the following accounts: shipments, storage, consignments, and commission.

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